THE FREEMAN

IDEAS ON LIBERTY

The Crumbling Foundation of American Government

Freedom Is Not Elected

Thank the Japanese for Our Trade Deficits

OCTOBER 1991

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FOUNDATION FOR ECONOMIC EDUCATION, INC. Irvington-on-Hudson, New York 10533

1991-92 Essay Contest

THE MARKET AND MOTHER NATURE:

Responses of a Free Society to Environmental Concerns

HIGH SCHOOL DIVISION

First prize — $1,500
Second prize — $1,000
Third prize — $500

COLLEGE DIVISION

First prize — $1,500
Second prize — $1,000
Third prize — $500

Essays should present the positive moral case for a free society. As an aid to contestants, we have prepared a booklet with articles and a bibliography on the subject.

Sponsor:
The Foundation for Economic Education is the publisher of **The Freeman**, a monthly journal of ideas on liberty. Founded in 1946, FEE is a nonprofit, nonpolitical educational and research organization offering books, lectures, and seminars that promote an understanding of the free market, private property, limited government philosophy.

Eligibility:
Any high school student may enter the high school division. The college division is open to college students 23 years old or younger. Essays may not exceed 2,500 words and must be postmarked on or before January 15, 1992.

The teacher, professor or home-schooling parent instrumental in encouraging the submission of the first-place essay in each division will be awarded a fellowship for a FEE summer seminar.

For complete contest information call or write:

FREEDOM ESSAY CONTEST

Foundation for Economic Education
30 South Broadway
Irvington-on-Hudson, NY 10533

(914) 591-7230

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

CONTENTS
OCTOBER
1991
VOL. 41
NO. 10

364 Welfare State on the Street Where You Live
Tibor R. Machan
If you want to understand why we have deficit spending at the Federal level, think about it in connection with your own parks and recreation department.

366 Individual Rights: The Crumbling Foundation of American Government
Robert Higgs
Denigration of individual rights has fueled the relentless move toward a less and less free society.

374 Positive Externalities of Gun Ownership
John Kell
Some benefits of the civilian ownership of guns.

377 Pains of the German Unification
Hans F. Sennholz
Government-imposed costs and regulations have prolonged eastern Germany's deep depression.

380 China's Entrepreneurs: Keeping the Faith After Tiananmen
Sheila Melvin
How changing politics and economic retrenchment have affected private enterprises and individual businesses in China.

387 Freedom Is Not Elected
Donald G. Smith
Representative government is no guarantor of liberty.

388 Thank the Japanese for Our Trade Deficits
John D. Fargo
Why do people cling to economic myths regarding the detrimental effects of trade deficits?

394 Book Reviews
Jeffrey Tucker reviews *This Hemisphere of Liberty* by Michael Novak; Peter Boettke reviews *To Promote the General Welfare* by Richard E. Wagner; *Wounded Innocents* by Richard Wexler is examined by Hannah Lapp; William Peterson looks at *Parliament of Whores: A Lone Humorist Attempts to Explain the Entire U. S. Government,* by P. J. O'Rourke.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Published by
The Foundation for Economic Education
Irvington-on-Hudson, NY 10533

President of The Board: Bruce M. Evans
Vice-President: Robert G. Anderson
Senior Editors: Beth A. Hoffman, Brian Summers
Contributing Editors: Bettina Bien Greaves, Edmund A. Opitz, Paul L. Poirot
Copy Editor: Deane M. Brasfield

The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a nonpolitical educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501 (c) (3) tax-exempt organization. Other officers of FEE's Board of Trustees are: Thomas C. Stevens, chairman; David H. Keyston, vice-chairman; Paul L. Poirot, secretary; Don L. Foote, treasurer.

The costs of Foundation projects and services are met through donations. Donations are invited in any amount. Subscriptions to *The Freeman* are available to any interested person in the United States for the asking. Additional single copies $1.00; 10 or more, 50 cents each. For foreign delivery, a donation of $15.00 a year is required to cover direct mailing costs.

Copyright © 1991 by The Foundation for Economic Education, Inc. Printed in the U.S.A. Permission is granted to reprint any article in this issue except "Welfare State on the Street Where You Live" and "Pains of the German Unification," provided appropriate credit is given and two copies of the reprinted material are sent to The Foundation.

Bound volumes of *The Freeman* are available from The Foundation for calendar years 1971 to date. Earlier volumes as well as current issues are available on microfilm from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106.

The Freeman considers unsolicited editorial submissions, but they must be accompanied by a stamped, self-addressed envelope. Our author's guide is available on request.

Phone: (914) 591-7230
FAX: (914) 591-8910
Cover art: © *Dover Books*

PERSPECTIVE

A Pollyanna World

The collapse of Eastern Europe has highlighted the serious flaws of socialism as a system that vests all power in a small, political elite, and in the name of equality turns a people into an unthinking, uncreative, faceless mass.

It is a system without checks and balances, a system that takes away a people's voice and turns them into drudges. There is no incentive to succeed, because whether people do their best or their worst, the best and the worst end up with the same reward.

Their job is protected, no one can fire them, so they can show up for work, or they can sit in the back room and play cards—the system will take care of them. Why should the man of ability break his back when he is not appreciated? And so, instead of working, he joins those in the back room in the card game. Nothing gets done. The spectacle of hungry people and the collapse of Russia today is the result of this attitude played out on a national scale.

Socialism is a system that does not accept the reality of man—the fact that man needs incentives and competition to move forward. Yes, man is greedy, he blooms on praise, he does his best in the competitive arena. Just a sniff of reward brings a glint to his eye. Socialism does not recognize the vanity of man, his weaknesses, his sin. Socialists live in a Pollyanna world of do-gooders, and in trying to transform man into an angel, they have turned him into a shuffling dullard.

All through Europe the world has seen the ugliness of inertia, of a malaise that killed a people's spirit, destroyed nations, and turned beauty into dross.

—from an editorial in the December 13, 1990, issue of *The Tribune*, a daily newspaper published in the Bahamas

Canadian Health Care

There is a queue of heart patients in Vancouver, British Columbia, who are unable to receive medical care. According to B.C. Cardiac Society spokesman Dr. Lawrence Burr, over a dozen candidates for open heart surgery have already died because of the long waiting list. And this is only the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tip of the iceberg. Burr estimates that 720 people in British Columbia have been accepted as cardiovascular patients, and that 400 of them are in urgent need of surgery within one month. This is a tragedy, and an obvious failure for Canadian socialized medicine.

Because of this medical emergency, British Columbia officials are trying to place 200 of their heart patients in Seattle hospitals. According to Dr. Jim Nell, president of the Seattle Area Hospital Council, "We'll have no trouble meeting the need."

Even if the 200 patients are moved across the border to Seattle, this won't end the long lines in B.C. hospital wards. Stated Dr. Burr, "Reducing the waiting list by 200 . . . would drop the waiting time for the remaining patients to about 11 weeks." This is an improvement, but in his view six weeks is ideal.

All in all, this isn't a pretty story for the much vaunted Canadian socialized medical system.

—WALTER BLOCK, writing for
The Fraser Institute
Vancouver, Canada

Social Responsibility

In a free society, there is no more responsible way to work for the benefit and improvement of all than to produce the goods and services others value highly enough to buy in free and open competition. Meeting the market test is the ultimate proof of service to others. The values instilled through voluntary contracts and exchanges in free markets represent the highest order of true social responsibility.

—M. BRUCE JOHNSON, writing in the June 1991
issue of *Alternatives in Philanthropy*

The Nature of Planning

Economic planning or industrial planning is nothing more than the forcible superseding of somebody else's plan by the powerful elite. For example, I may plan to buy a Honda motorcycle, but the powerful supersede those plans through tariffs and quotas because they have decided a Harley-Davidson is preferable. My daughter might plan to work for the hardware store for $2 an hour; I agree with it as her father; her mother agrees with it; she agrees with it; and the hardware store owner agrees with it. But the powerful elite directs that the plan be cancelled unless she gets $3.80 an hour. That's economic planning. It is the forcible superseding of somebody else's plan by the powerful elite.

—WALTER WILLIAMS,
speaking at Saint Vincent College,
February 5, 1991

Affirmative Action

Affirmative action reinforces and places a premium on racial consciousness and prejudice. It encourages an attitude of victimization among blacks and other protected groups whom it regards as dependent and—if not inferior—then at least incapable of competing on their own. Moreover, it requires that anti-bias and civil rights progress be denied in the face of clear evidence to the contrary. A deeply dialectical intelligence is required to conclude that affirmative action has not had a corrupting effect on the American political tradition.

—HERMAN BELZ
Equality Transformed

East and West

For a permanent social rejuvenation, the East needs to learn what the West has forgotten—that it isn't enough to install capitalism as a utilitarian economic stopgap measure. What is needed is for the entire legal agenda of classical liberalism to be enshrined within a culture. The classical liberal concern for the fundamental rights of the individual to life, liberty, and property cannot be treated as a mere expedient; it should not be expected to bail out a society from its past mistakes, only to be sacrificed, once the economy begins to recover, on the altar of the welfare state, with all its wasteful policies in behalf of aspects of society that will not be upgraded without self-discipline, without the discipline imposed by the free market economy and a criminal law system that upholds the principles of individual rights.

—TIBOR R. MACHAN
Auburn University

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Welfare State on the Street Where You Live

by Tibor R. Machan

Like many fathers, I take my children to city-run recreation facilities. My 7-year-old daughter takes gymnastic lessons, and my 11-year-old son plays baseball. All three of my children have attended summer day camps provided by the city parks and recreation department.

But I'm not happy about this, at least about the way it fits into the large picture of our society. While, of course, the kids have fun and get something out of it, there is a definite downside to counting on the city to provide such facilities.

Already at this point people are learning to depend on government to do a great deal for them that it shouldn't be doing at all. In short, a city government should have no parks and recreation department. It isn't what government is supposed to be about. It has nothing to do with justice, with protecting, maintaining, and preserving the rights of individuals at the city's level of jurisdiction. Rather it is the sort of activity that people should organize for themselves, via their social clubs, churches, the extracurricular activities of their firms, and so on.

City-run recreation facilities instill the belief, at a very early age, that if you want something, it is only natural that the government should provide it. And from this belief, of course, has sprung the gradual but certain bureaucratization of nearly all of human life.

Tibor R. Machan teaches philosophy at Auburn University, Alabama.

As I was waiting for my daughter to finish her gymnastics lesson one night, I overheard a brief conversation between members of the board of our city's parks and recreation department. They were walking out of a room in which they had just held a meeting. One was noisily complaining that the city never has enough money to do this business right, and there isn't going to be any relief soon, so they might as well learn to live without.

Of course. Whenever government tries to provide for people what they should provide for themselves, it never will be able to do well enough—indeed, it's most unlikely that there ever will be a well enough! One can always think of some additional support, yet another basketball or tennis court, more lifeguards at the city's swimming pool, still another baseball umpire to hire, and so forth. It never ends, does it?

"The Moral Tragedy of the Commons"

This is what I have come to call "the moral tragedy of the commons." When there is a supposedly common pool of resources, people always have their own idea of how to make the best use of it. And the most use of it. So no matter how much one resolves to tighten the belt, there always will be a good reason to want to do more and better—after all, it's for the children, for the future of the community, or for some other noble cause.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

BILL BONGIORNO

People have learned to depend on government to do a great deal for them that it shouldn't be doing at all.

What few people stop to think about is that government programs are costly—they require people's labor, ingenuity, skills, and innumerable resources. And the taxpayer pays the bill. But since he or she is being forced to put money into a common pool, no one worries about how much a particular taxpayer has contributed so that there can be some idea of how much each family might take from the pool. Instead, everyone just wants more money and resources for their favorite projects.

Why are cities, counties, states, and national governments going broke all over the world? Because we all want to improve things with more funds, but no one has any idea what the limit is. Private property solves this problem, but was abandoned a long time ago when taxes reached the point where we can steal our way to being provided with all sorts of things we desire, never mind thinking about paying for them or long-range budgeting.

If you want to understand why we have deficit spending at the Federal level, think about it in connection with your own parks and recreation department. Ask how one can control costs when the funding source is an impersonal common pool of resources belonging to no one. The answer is that without a reasonably precise relationship to a person's own limit of expendable income, there is no hope of putting a lid on government spending.

It doesn't begin with S&L scandals. It doesn't have to do with Pentagon extravagance. These are but symptoms. It has to do with the gradual expansion of the public sector and corresponding contraction of the private sector. As Aristotle said:

> That all persons call the same thing mine in the sense in which each does so may be a fine thing, but it is impracticable; or if the words are taken in the other sense, such a unity in no way conduces to harmony. And there is another objection to the proposal. For that which is common to the greatest number has the least care bestowed upon it. Every one thinks chiefly of his own, hardly at all of the common interest; and only when he is himself concerned as an individual. For besides other considerations, everybody is more inclined to neglect the duty which he expects another to fulfill; as in families many attendants are often less useful than a few. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Individual Rights: The Crumbling Foundation of American Government

by Robert Higgs

Almost everyone recognizes that government can perpetrate great evils. One has only to think of the regimes of Stalin, Hitler, and Pol Pot, three of the most hideous examples. But government is also widely regarded as a potential source of great good. Even Ludwig von Mises, an archenemy of statism, declared that government is "the most necessary and beneficial institution, as without it no lasting social cooperation and no civilization could be developed and preserved."[1] How can people enjoy the benefits of government while avoiding the dangers? Upon what principles must a tolerable government be built?

The Nature of Government

When we say the word "government," we may mean various things. Sometimes we refer to certain institutions, the established rules and proceedings by which the body politic is ordered and incorporated into the making and maintaining of collective arrangements for social life. At other times we refer to the particular persons who wield established authority over the citizenry. The two meanings are connected. Government as rulers operates according to government as institutions, which people often call "the system." This connection holds whether the type of government be dictatorship, oligarchy, monarchy, or representative democracy.

Governments have existed for thousands of years. Philosophers have argued that they are either natural—it would be inconceivable that humankind not have them—or that people without a government would be, in Thomas Hobbes's words, so "few, fierce, short-lived, poor, nasty, and deprived of all that pleasure and beauty of life, which peace and society are wont to bring with them," that no one would want to be without a government.[2] In Hobbes' estimation, it would be a good bargain for individuals to surrender all their freedom of action to a ruler in exchange for a modicum of peace and social order.

A government, by definition, claims a monopoly of legitimate coercion within its jurisdiction. Every government, ultimately if not immediately, relies on physical violence to enforce its rule. If it cannot do so effectively, it probably will be replaced by another government that can. Hence it is entirely natural that governments maintain police, prisons, and armed forces, whereas General Motors, Exxon, and IBM do not. People sometimes talk about "economic power" as if it were comparable with governmental power. It isn't.

Every government recognizes that people will obey orders more readily if they believe the orders are proper and, in some sense, in the best interests of the ruled as well as the rulers. Historically, a close linkage of the warrior class and the priesthood has characterized most societies. The bless-

Robert Higgs is the Thomas F. Gleed Professor in the Albers School of Business and Economics and Director, Center for the Study of Social Dynamics, Seattle University.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ing of religion has given many governments a more effective claim to obedience. Whether by appeal to religion or by appeal to secular principles of right or virtue, governments always try to legitimate their actions. This striving after legitimation is the principal difference between governments and mere criminal gangs.

Whether government really is necessary (and a few of us still consider the question open to debate), once a society has a government, the potential exists for rulers to abuse their power by pursuing their own ends rather than those cherished by the people they rule. Unchecked government can give rise to tyranny. Accordingly, many lovers of liberty have called government a necessary evil: necessary because they see no alternative institution to maintain peace and domestic order, and evil because the rulers, by virtue of their exclusive control of legitimate coercion, may overextend their powers at the expense of the well-being and liberties of the ruled.

Revolutionary Ideals

The men who founded the United States were, in the eyes of the established British government, outlaws—traitors, thieves, and murderers. Americans nowadays so venerate the memory of Jefferson, Madison, Washington, Hamilton, Adams, Franklin, and the other Founding Fathers that we easily forget the raw reality of what they undertook to do between 1775 and 1783. They armed themselves, laid claim to authority denied them by established law, and set out to overthrow the established government by killing the men who defended it.

They were not murderers by profession. Indeed, they probably were the most thoughtful, best educated, and most articulate band of outlaws in history. When they decided to take up arms to overthrow the government, they debated their cause at length, and they wrote down in various places their reasons for resorting to killing other human beings, their justification for actions they ordinarily would have strongly condemned. How did they justify their actions?

They claimed that they, in common with all men, had rights, and that in the existing circumstances they could effectively defend their rights only by violence. In 1774 the First Continental Congress made a declaration of what its members called "their indubitable rights and liberties; which cannot be legally taken from them, altered or abridged by any power whatever, without their own consent. . . ." They claimed that they were "entitled to life, liberty, and property. . . ."

Where did the asserted rights come from? They said that they held the rights "by the immutable laws of nature, the principles of the English constitution, and the several charters or compacts" establishing the British colonies in North America.[3] Again and again the rebels justified their cause by claiming a right to liberty. They insisted that the legitimacy of government required the consent of the governed.

The Continental Congress's "Declaration of the Causes and Necessity of Taking Up Arms," issued July 6, 1775, declared that "a reverence for our great Creator, principles of humanity, and the dictates of common sense, must convince all those who reflect upon the subject, that government was instituted to promote the welfare of mankind, and ought to be administered for the attainment of that end. . . . Honour, justice, and humanity, forbid us tamely to surrender that freedom which we received from our gallant ancestors. . . . The arms we have been compelled by our enemies to assume, we will . . . employ for the preservation of our liberties; being with one mind resolved to die freemen rather than to live slaves. [And finally] in defence of the freedom that is our birth-right, and . . . for the protection of our property, . . . we have taken up arms."[4]

Then, in 1776, the Continental Congress issued a Declaration of Independence. Here is the justification the rebels gave for their actions:

> We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness. That to secure these rights, Governments are instituted among Men, deriving their just powers from the consent of the governed, That whenever any Form of Government becomes destructive of these ends, it is the Right of the People to alter or to abolish it, and to institute new Government, laying its foundation on such principles and organizing its powers in such form, as to them shall seem most likely to effect their Safety and Happiness.

The Declaration continued by explaining that

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Howard Pyle drew this illustration of the members of Congress leaving Independence Hall on the occasion of the first public reading of the Declaration on July 8, 1776. Many members of Congress are identifiable, and the dense crowd lends the composition a feeling of serious common purpose.

the rebels had not rashly taken up arms against the established government:

> Governments long established should not be changed for light and transient causes; and accordingly all experience hath shown that mankind are more disposed to suffer, while evils are sufferable, than to right themselves by abolishing the forms to which they are accustomed. But when a long train of abuses and usurpations, pursuing invariably the same Object evinces a design to reduce them under absolute Despotism, it is their right, it is their duty, to throw off such Government, and to provide new Guards for their future security.

The Declaration went on to present a lengthy list of grievances against the King, including the complaint that he had "erected a multitude of New Offices, and sent hither swarms of Officers to harass our People, and eat out their substance."

During the Revolutionary era, individual states enacted bills of rights. The Virginia Bill (1776), almost entirely drafted by George Mason, began, "all men are by nature equally free and independent, and have certain inherent rights. . . ."[5]

The Massachusetts Bill (1778), written almost entirely by John Adams, began, "all men are born free and equal, and have certain natural, essential, and unalienable rights; among which may be reckoned the right of enjoying and defending their lives and liberties; that of acquiring, possessing, and protecting property; in fine, that of seeking and obtaining their safety and happiness." Article seven of the Massachusetts Bill of Rights declared: "Government is instituted for the common good . . . and not for the profit, honor or private interest of any one man, family, or class of men. . . ." And Article 10 read: "Each individual of the society has a right to be protected by it in the enjoyment of his life, liberty, and property. . . . No part of the property of any individual can, with justice, be taken from him, or applied to public uses, without his own consent, or that of the representative body of the people. . . . And whenever the public exigencies require that the property of any individual should be appropriated to public uses, he shall receive a reasonable compensation therefor."[6]

Later, in the national Bill of Rights, the 10 amendments to the United States Constitution ratified in 1791, many of the rights proclaimed by the individual states in the 1770s became part of the entire country's supreme law. Later still, in the 14th Amendment, added to the Constitution in 1868, each state was forbidden to "deprive any

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

person of life, liberty, or property, without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws."

Clearly, government in the United States was founded on an explicit recognition of rights—natural, inalienable rights of each individual—and governments were understood to be legitimate only insofar as they acted to protect those rights. Individuals and their rights were regarded as morally prior to government and its mandates; governments were to serve the people, not the people the government. Government was justifiable only as an instrument of the governed. When governments proved abusive of their powers, when they destroyed rather than protected the natural rights of individuals, the people had a right to defend their rights and to overturn the government that threatened them.

Current Suppression of Rights

Comparing the ideology of the Founders with the currently dominant ideology, we encounter a stark contrast: on the one hand, the deep regard that the Revolutionary ideals expressed for individual rights; on the other hand, the rampant disregard for individual rights with which the present governments of the United States—federal, state, and local—conduct themselves and justify their actions. To make matters worse, not only do most Americans not recognize that their governments massively invade rather than protect their rights; most Americans actually talk as if they live in a free society.

Many people remain unaware of the extent to which government controls a vast range of human conduct in our society because they are not themselves on the receiving end of many of the particular forms of control. If you are not an automobile designer, you may not be aware that the government prescribes many requirements that all automobiles must meet. If you are not a real estate developer, you may not be aware of the multitude of government permits that must be acquired before you may commence building, and of the plethora of regulations that constrain how you may build. If you are not a pharmaceutical manufacturer, you may not be aware of the long process of testing and certification that must be endured before the government will permit you to sell your product. If you are not an importer or exporter, you may not be aware of the many controls and paperwork requirements that impede your business. If you are not a personnel or payroll officer, you may not be aware of the huge number of requirements you must meet with respect to collecting taxes and providing benefits to employees, and with respect to the makeup of your work force as regards race, sex, and other criteria. If you are not a dealer in stocks and bonds, you may not be aware that acting on the basis of certain information, which the government considers "inside information," may land you in jail. If you do not have complicated business or financial dealings, you may not be aware of how extensively you must give an account of your affairs to the tax authorities. If you are not a business person, you may not be aware that any number of seemingly proper and mutually beneficial business arrangements may cause you to be charged with violating the antitrust laws. And so on and so on, endlessly.

Everyday Controls

But even an ordinary person unavoidably runs up against government controls every day. Perhaps you wake up when your clock radio comes on, bringing you signals transmitted by a radio station permitted to operate only after being granted a license by the Federal Communications Commission. You get dressed, putting on clothing and shoes that cost you more than they would have if the United States government had not restricted the importation of clothing, textiles, and footwear. You drive to work in a car constructed in accordance with a variety of government regulations; or you ride the bus, paying a fare established by a government regulatory commission. You work or go to school with people who have been selected in part on the basis of governmentally prescribed rules and quotas regarding race, sex, ethnicity, handicap, or veteran status. You eat lunch at a cafe that is allowed to operate only after acquiring various permits. You make telephone calls and pay for them at a rate set by a public utility commission. You go home to sit down to an entree of meat sold only after mandatory inspection by the Department of Agriculture. What you paid for the food reflects the price supports on farm products and the restrictions on the importation of farm products into the United States. In the evening you turn on the television, watching a program broadcast by a station

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

licensed by the Federal Communications Commission. Just before turning in for the night, you may take some medicine that you could legally purchase only by prescription and which can be sold to you only because it has been approved by the Food and Drug Administration. Yours has been an uneventful day, yet you have moved at every moment within a web woven by government.

How the United States evolved from a nation that held individual rights in high esteem (at least as ideals, if never consistently in practice) into a collectivist regime in which individual rights are subjugated in countless distinct ways every hour of every day is a long and complicated story—in many respects, it is the whole story of American society during the past 200 years. Not that liberty diminished at every place and time. The emancipation of the slaves, for example, was a triumph of liberty against which anything else in our history pales. But that was an anomaly, just as the existence of slavery had been an anomaly in the early days of the Republic. In most respects the trend, sometimes quicker, sometimes slower, was relentlessly toward a less and less free society. The pace of the movement accelerated during the past 75 years; it shows no sign of slowing now. Each day Americans become a little less free.

The tragedy is that most neither know nor care. Like George Orwell's character in *1984*, who inhabited a world in which the official language held that war was peace and slavery was freedom, most Americans have actually learned to love Big Brother. Indeed, they spend much of their time actively seeking, or supporting the efforts of those who seek, to extend the grip of government over the whole of human affairs. Nothing is too intimate or too personal or too important to be left for free individuals to decide: not the education of young people, not the care of children or the sick, not even vital decisions involving life and death—nothing escapes the tentacles of government.

Lovers of liberty watch in horror as their fellow citizens stitch new and unnatural organs onto the Frankenstein monster. One marvels that they can take these actions in the name of "doing good," "being fair," "promoting prosperity," "maintaining national security," and a variety of other noble-sounding purposes. Perhaps in some cases they know what they are doing and have simply decided that the loss of liberty entailed by the new government power they support is an acceptable price to pay for the prospective benefit they anticipate—especially when they expect only other people's liberty to be diminished. In many cases, though, they surely act with no awareness that the new government program entails a further throttling of human liberty, an overriding of individual rights.

In 1991, according to official sources, Federal bureaus alone—not to mention the 50 states, more than 3,000 counties, and scores of thousands of cities, townships, and other government units, all imposing restraints on individual action—will propose or make final the issuance of 4,675 new rules.[7] Those are *new* rules. When added to all the existing rules, laws, ordinances, regulations, decrees, injunctions, orders, requirements, prohibitions, and other official directives, they make up a heap of coercive measures so enormous that not even an army of lawyers can hope to grasp them all, and tax accountants throw up their hands in exasperation.

Budgetary Tyranny

To carry out their thousands of projects, the governments of the United States take at gunpoint —remember, payment of taxes is *not* a voluntary contribution—a sum of money beyond human comprehension, currently about $2 trillion. Question: How far would total government revenues, put into the form of a string of two trillion dollar bills, reach? Answer: It would stretch from the earth to the sun and back, leaving enough of the string to wrap around the earth about 167 times. And this illustrates just this year's government revenues. Watch out for next year!

Remember the American colonists' complaints about taxation without representation? Well, they paid at most a few percent, probably no more than 3 percent, of their annual incomes in taxes. Americans now pay about 36 percent of their vastly larger incomes to their governments. Much of this huge revenue amounts to taking from Peter to pay Paul, then taking from Paul to pay Peter—in order to be fair. Along the way, government officials and bureaucrats take a hefty broker's commission on each transaction. Fully one worker in seven is on the government payroll. Vast numbers of others, supposedly in the "private sector," also work for the government, because they do what they do only because of government spending, taxing, and regulating.

So utterly devoid of principle is the current

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

activity of U.S. governments that no project whatsoever is too silly to exclude from the trough. Recall the scandal involving the hundreds of thousands of dollars recently appropriated to fix up the boyhood home of Lawrence Welk somewhere in the lost reaches of the Dakotas. (The appropriation was repealed when the news media publicized it heavily, but rarely does anyone take much notice of the equally outrageous appropriations that lard the budget.) You probably haven't heard of the $566 million appropriated to fly cows to Europe, supposedly to promote exports. Or the $107,000 to study the mating habits of the Japanese quail. Remember, every dollar is taken from you or someone else at gunpoint. Would *you* put a gun to someone's head to get money for studying the Japanese quail?

There's much more, including the $2.8 million for a fish farm in Stuttgart, Arkansas; the $1.3 million for repairs to a privately owned dam in South Carolina; the $500,000 for the 1992 American Flora Exposition; and the $49 million for a rock-and-roll museum. Consider next the $500,000 to revitalize downtown Ada, Oklahoma—not a place many Americans are likely to visit—and the $772,000 to construct a skeet shooting club at Tinker Air Force Base. After all, one never knows when the Russians will attack with clay pigeons. There is also $375,000 to renovate the House of Representatives beauty parlor; plus $98 million for Congressional mail no one wants to receive, hyping the virtues of your local member of Congress; and $1.5 million to spruce up a military golf course. (Is this what the framers of the Constitution had in mind by the phrase "provide for the common defense"?) There's $7 million to study air pollution—in Mexico City—and $1 million for the bicycle transportation demonstration project in Macomb County, Michigan. And the list goes on and on and on.[8]

One could continue indefinitely just listing one-line descriptions of ludicrous government projects, which in many cases have no real value to anyone except those paid to carry them out. Rarely does the budget contain the *only* kind of projects contemplated by the founders of the nation, namely, those of common benefit (that is, of benefit to *everyone*) that are also within the powers enumerated in the Constitution as allowable government actions.

Needless to say, constitutional limits on government action fell by the wayside years ago. Where economic interventions are concerned, the federal government received the blessing of the Supreme Court, in a series of cases between 1937 and 1942, to do virtually anything authorized by Congress.[9] Given that green light, members of Congress proved time and again that no scheme to buy votes was too outrageous to refuse. Anyone who thinks that taxes must be raised to cut the federal government's deficit, because spending already has been cut to the bone, should spend some time reading the budget documents.

Democracy Versus Rights

Of course, we've been told since childhood that all of this is just the workings of "democracy," as if taking a vote could decide the wisdom or morality of an action. The central purpose of the Constitution in the first place was to put *limits* on the actions of political representatives. A majority vote can do nothing to *justify* an action. The majority vote of the people or the Congress can no more justify a political action than the majority vote of a gang can justify an assault.

Majority voting is simply a decision rule for selecting the actions that will be taken from the set of all *permissible* actions. Through the years the mantra of "democracy" has been chanted over the most morally offensive actions of American governments, as if majority voting can make everything okay. It cannot. When governments override the rights of individuals, they violate their only *raison d'être.* Under the banner of democracy, the United States has built an engine of oppression so vast that it is doubtful whether it can ever be substantially reduced, much less dismantled.

Are Rights Justifiable?

Is it possible that I am taking too seriously some 200-year-old rhetoric about human rights, and that I have compounded the blunder by supposing that property rights are among the most fundamental of all human rights? After all, didn't Jeremy Bentham tell us that the notion of rights is not only nonsense, it is "nonsense on stilts"?

I admit that I am no philosopher and that, if called upon to supply a proof of the existence of human rights, I cannot provide one. Nor am I persuaded by the attempts I've seen of philosophers

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

far better prepared than I to give the proof. But as an economist, I am trained to ask certain questions: First, what's the alternative? Second, after a choice is made, what happens next, and after that, and after that, as repercussions of the initial choice continue to have indirect effects?

Suppose you tell me, there is no such thing as rights; and I reply, okay, let's agree that there are none. Later, when a mugger accosts you and demands that you surrender your wallet on pain of having your throat slashed, am I supposed to feel that you have been wronged? Of course, you won't like this event, but the mugger will; it's just your personal loss against the mugger's personal gain.

Or suppose you wake up tomorrow morning and discover that a majority vote has been taken, and the majority or its chosen representatives have decided that all people like you—in some respect, it doesn't matter which—are to report for transportation to concentration camps. Well, that's democracy in action. Remember what happened to the Japanese-Americans in 1942.

If there are no rights, then we'll just have to get along without them. But chances are, with no conception of rights, social life will be pretty much as Hobbes thought: brutish and short, et cetera, or else everyone will end up obeying the person who wields the most power at the moment. A society that doesn't take human rights seriously and protect them will turn out sooner rather than later to be hellish. Apart from whatever one may think about the philosophical status of rights, a world without rights would not meet the aspirations of even the most thoroughgoing utilitarian. So, if one doesn't care whether people believe in rights, fine; but one must be prepared to suffer the consequences.

We know from history what happens to societies without genuine individual rights. From sweeping powers of government, unconstrained by silly notions that all individuals have rights to life, liberty, and property, come the Soviet Union and its empire, Nazi Germany, Fascist Italy, and Pol Pot's Cambodia as well as today's China, Vietnam, Cuba, and a lot of other loathsome societies that merit the full measure of our contempt and sorrow.

In due course we shall arrive at something similar in the United States, for this country is fast proceeding in the direction of subjugating all human rights, especially human rights to property, without which the others eventually will prove more or less worthless. When the government controls everybody's access to newsprint and broadcasting channels, freedom of the press won't have any real substance—just consider how shamelessly the news media performed during the recent war, when the government controlled reporters' access to the theater of war. When the government controls the conditions on which people can obtain or give employment, freedom of speech won't matter much—who will jeopardize his job by speaking out against the government? When the government controls the manner in which all goods and services must be produced and the terms on which they may be sold, freedom of association won't be worth much—what good will it do to have a meeting under those conditions? A nation without firm private property rights will eventually prove unable to defend any human rights whatever. Only citizens who have secure private property rights possess a protected, autonomous position from which they can challenge their rulers. Our forefathers understood this well, but most Americans have forgotten.

Property Rights Are Human Rights

Property rights have been slandered throughout most of the 20th century, especially by people who contrast property rights and human rights, and pose a choice between them. Now, faced with such a choice, who wouldn't opt for human rights—far better to worry about human beings than about sticks and stones. But this way of posing the question is misleading and utterly unacceptable.

All rights are human rights. It is in the very nature of rights, which are morally justifiable claims on the conduct of other persons, that only human beings can possess them. Property rights don't belong to the factory in which a corporation manufactures its products; they belong to the corporation's shareholders, the individual human beings who have surrendered other property in voluntary transactions to acquire ownership claims on the factory. A related and equally foolish idea is that government can tax "business" rather than individuals. But bricks and mortar can't pay taxes; only persons can. "Taxing business" is just another term for taxing certain people differently from others.

Property rights are the human rights to decide

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

how property will be used, to appropriate the income or other benefits of the property, and to transfer the rights of ownership to others in voluntary transactions. Everyone realizes that some degree of property ownership is essential for sustaining human life in society. But many people suppose that once we go beyond personal property such as clothing, furniture, automobiles, perhaps houses, and arrive at "bigger" property such as land, factories, mines, and railroads, private ownership no longer is essential. The supposition is wrong. Suppression of private property rights at any level tends to have socially destructive consequences.

Property rights must be lodged somewhere. Even societies that pretend to have no private rights in "bigger" property simply lodge the rights in the hands of politicians or bureaucrats. *Someone*, some human being, still decides how the property will be used and who will receive its benefits.

But without private property rights, the link is severed between rational employment of the property and the rewards or punishments of the decision-maker. Irresponsible behavior no longer carries with it an automatic punishment. Politicians or bureaucrats are free to use resources destructively—as they have in socialist economies for decades and as they have in the socialized sectors of the United States such as public education or management of public forests or rangelands or national defense production—and still the decision-makers may thrive.

Private property rights create an incentive to employ resources in their most highly valued uses as determined by consumers. Socialized property arrangements insulate the decision-makers from the preferences of consumers, who invariably suffer, as they have throughout the socialist world since 1917, and as the unfortunate people of those places, some of whom now are free to speak, readily attest.

For Sale: A Precious Birthright

As ever more rules and regulations curtail the decisions individuals may make for themselves, as ever greater proportions of people's income are siphoned off to be used as our leaders decide, as every species of special interest pays tribute to predatory politicos who suck the marrow from the bones of civil society, individuals are reduced to ever more meaningless atoms in the social cosmos. All of life becomes politicized, which means corrupted by power. And as individual liberty and individual rights die, all that is decent in human society dies with them.

Our Revolutionary forebears complained that King George had "erected a multitude of New Offices, and sent hither swarms of Officers to harass our People, and eat out their substance." But Jefferson and Madison could not have dreamed, even in their most horrifying nightmares, of the swarms of bureaucrats upon us now, harassing us and eating our substance. The nation's founders could not have understood how cheaply a wealthy society of their descendants would sell its precious birthright of liberty and justice and respect for individual rights.

No individual, of course, can do much about the state of the nation. But each of us has a mind, and with some effort one can use it to think. The next time you hear of a proposal to employ the government for still another noble purpose, think! Ask yourself: At what cost to individual liberty will this project operate? And how can we preserve our remaining liberties if we give our assent piecemeal to the thousands of new proposals for enlarging and strengthening government that pour forth each year? What will be the end result of these piranha attacks on human rights? And do you want to live in that kind of world? □

1. Ludwig von Mises, *The Ultimate Foundation of Economic Science: An Essay on Method* (Kansas City, Kan.: Sheed Andrews and McMeel, 1978), p. 98.
2. Thomas Hobbes, *Philosophical Rudiments Concerning Government*, as reprinted in *Hobbes: Selections*, edited by Frederick J. E. Woodbridge (New York: Charles Scribner's Sons, 1930), p. 267.
3. "Declaration and Resolves of the First Continental Congress," in *Documents of American History*, edited by Henry Steele Commager (New York: Appleton-Century-Crofts, 1948), pp. 83-4.
4. "Declaration of the Causes and Necessity of Taking Up Arms," in *Documents*, pp. 92-5.
5. "The Virginia Bill of Rights," in *Documents*, p. 103.
6. "Massachusetts Bill of Rights," in *Documents*, pp. 107-08.
7. Unified agenda of Federal regulations, as cited in Robert Pear, "In Bush Presidency, the Regulators Ride Again," *The New York Times*, April 28, 1991.
8. The preceding examples, and many more, appear in a series of stories on Congress in *New Dimensions*, March 1991, pp. 22-57.
9. Robert Higgs, *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (New York: Oxford University Press, 1987), pp. 180-94.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Positive Externalities of Gun Ownership

by John Kell

While a friend and I were talking about gun control, he remarked that it didn't matter to him if restrictions were placed on gun ownership because he didn't own a gun. What he failed to realize was that he benefits from civilian gun ownership whether he owns guns or not. He benefits because the ownership of guns by civilians has positive externalities.

Externalities are unpaid-for effects that accrue to third parties from the use of property by its owners. The effects may be beneficial or harmful to the third parties. If beneficial, the effects are known as "positive externalities"; if harmful, they are called "negative externalities." For example, someone who walks down a residential street full of well-landscaped yards might enjoy the sight and smell of flowers in bloom. Though the individual homeowners paid for and cared for their particular yards, the walker also benefits. The pleasure the walker receives is a positive externality of the homeowners' yard care.

Advocates of gun control are quick to point out that innocent third parties sometimes are injured or killed by accidental discharge or criminal misuse of firearms. Indeed, these are negative externalities of guns in civilian hands. What advocates of gun control rarely acknowledge, or even understand, are the positive externalities of civilian gun ownership. Positive externalities may be less newsworthy, but they are just as real and far outweigh the negative externalities of the right to bear arms.

While accidents and criminal use of guns are reported as news, making the negative externalities of gun ownership readily apparent, the millions of peaceful interactions among people that occur each day are not reported. These peaceful events are taken for granted, and little thought is given as to what conditions brought them about in the first place. Millions awake each morning and find that their homes haven't been burglarized. The vast majority of stores pass through day and night without being robbed. Many women walk alone or live alone without being accosted or raped. These peaceful happenings are due to many factors, such as burglar alarms, door locks, and police patrols, but many are due, in part, to civilian gun ownership.

One million times each year homeowners and storekeepers protect their property and lives using firearms; often this occurs without a shot being fired.[1] The mere sight of a gun often is enough to send a robber running. Impressive as this number is, it doesn't show the full extent to which the crime rate is lowered due to privately owned guns. In those cases where a gun owner thwarts a lawbreaker, it is obvious that having a gun benefited its owner. But those cases benefit non-owners as well. If the lawbreaker is killed, he will commit no more crimes. If the lawbreaker is wounded, captured, or even escapes, his inclination to commit a similar

Mr. Kell is a botanist studying for his Ph.D. in biology at Virginia Polytechnic Institute and State University, Blacksburg, Virginia.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

crime in the future is probably lessened. The peace that arises from the disinclination or inability to commit another crime is a positive externality of gun ownership.

Crime Kept in Check

It cannot be known how many times each day potential burglars think, "I'm not going to break into that house; I might get shot." Even though it is difficult to evaluate how much crime is kept in check by civilian gun ownership, there is evidence that suggests its damping effect is substantial. In Orlando in 1966-67, the numbers of burglaries and rapes fell substantially after 2,500 women went through a well-publicized training program on the use of handguns.[2] In a survey taken of felons, 43 percent stated that the fact that a victim might be armed had caused them to avoid particular homes or people.[3] There probably is no way to determine how many law-abiding citizens might turn to crime if it were a less dangerous occupation.

A friend of mine, a gentle and honest man, once confided in me that he had stolen a car when he was a teenager. He and three friends had been walking down a street in the small town where he lived, noticed a car with keys in the ignition, hopped in and drove away. Their joyride ended when they were pulled over by the local constable. My friend said his act of thievery hurt his mother more than anything else he ever did, and he regretted it often. He was guilty of theft and knew it, but he said he wished that the car's owner hadn't left the keys. Even though a well-equipped criminal can break into a locked car in less than a minute, leaving cars unlocked with keys in the ignition greatly increases the number of thefts.

The lesson here is that if it is very convenient to commit a crime, more people will commit it. This is not to say that everyone is dishonest; it's just a basic law of human nature that people will choose the easy way over the hard way when confronted with a task. In the task of living, it is easier to take than to make. As Frederic Bastiat said, ". . . the very nature of man . . . impels him to satisfy his desires with the least possible pain."[4] Copyright laws are violated daily by otherwise honest people with access to photocopiers and tape recorders. The crime is so convenient and the victim is so distant, most people who commit copyright violations probably wouldn't consider themselves criminals.

Bastiat said, "When, then, does the plunder stop? It stops when it becomes more painful and more dangerous than labor."[5] Gun ownership by civilians makes burglary and robbery very dangerous and often very painful. About one-half of all homes in the United States contain firearms.[6] Someone considering carrying out a burglary has no way of determining if the house he plans to enter has guns in it, so he avoids all occupied houses, benefiting those who don't own guns as well. People who don't own guns know implicitly that they benefit from private gun ownership. How many of them would put a sign in their yard that says: "The owners of this house will not defend it with armed force."

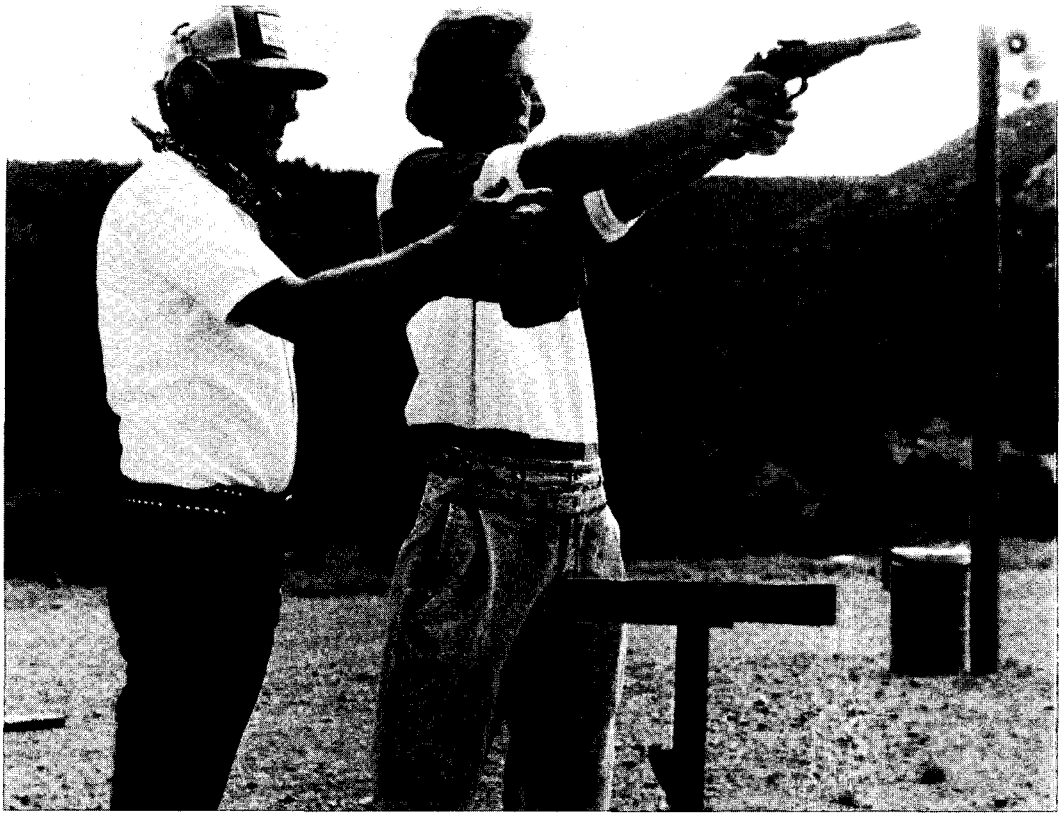
Jails are full of repeat offenders. That is evidence that punishment is not a strong enough deterrent for some people. The punishment served up by the criminal justice system usually occurs long after the crime, further attenuating any deterrence value it may have. But negative reinforcement, the condition provided by an armed homeowner at the time of an attempted crime, is an effective deterrent. Such immediate and life-threatening action makes crime a hazardous occupation, and if crime is made a dangerous way of life, the number of criminals will decline and society will be a safer place for all.

Restraining Government

Another positive externality, even less apparent, is the restraint that has been put on government action because of civilian gun ownership. What policies might have been put in place by federal, state, and local governments had civilian gun ownership been heavily restricted? In the many years since the founding of our nation, what rules might bureaucrats have written if they hadn't needed to worry about an armed revolt of the masses? What invasive policies might they have come up with to make enforcement of their laws easier?

There are thousands of laws in the United States that restrict gun ownership in one way or another. Restrictions include waiting periods, bans on concealed weapons, and bans on owning particular kinds of weapons such as handguns or military style semi-automatics. Gun control advocates support these laws because they hope to eradicate negative externalities, but reducing gun ownership eliminates positive externalities as well. In fact,

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



COURTESY OF THE NATIONAL RIFLE ASSOCIATION

Nonprofit groups such as the National Rifle Association provide training in the handling of firearms.

gun control laws probably cancel more positive than negative externalities, because law-abiding citizens are much more likely to obey the rules than are criminals.

The negative externalities of guns need to be decreased, but the best way to minimize them is to deal with them directly. Accidents can be reduced by educating owners about the proper care and handling of firearms. Such training is being provided by nonprofit groups including the National Rifle Association, and at for-profit shooting ranges.

Criminal misuse of firearms can best be decreased by cutting the overall crime rate. Methods of reducing crime have been discussed by other authors, and include drug legalization, eliminating barriers to entry in the work force, and increasing educational opportunities.

Since we don't pay for positive externalities, we seldom think of their value. Indeed, it would be a formidable task to measure the total value of the positive externalities of guns in private hands. However, even without that measurement, the knowledge of the existence of positive externalities should help us to understand why so many people consider the right to own firearms to be a priceless freedom. □

1. Gary Kleck, "Crime Control Through the Private Use of Armed Force," *Social Problems*, February 1988, p. 4.
2. *Ibid.*, p. 13. Rapes had decreased by 89 percent one year after the program. Burglaries dropped "substantially" as well.
3. *Ibid.*, p. 12.
4. Frederic Bastiat, *The Law* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1950), p. 10.
5. *Ibid.*, p. 10
6. Kleck, p. 1.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Pains of the German Unification

by Hans F. Sennholz

Eastern Germany is lingering in deep depression. Of all the struggling former Soviet satellites, it was expected to succeed most quickly. At a stroke, on July 1, 1990, the German mark became the common currency, opening the doors to one of the world's richest sources of investment capital. The West German government stood by with hundred-billion-mark grants and credits, and millions of fellow citizens were eager to help in any way possible. Yet, despite these extraordinary advantages, East Germans are suffering probably the deepest depression in Eastern Europe. In 1990 their gross national product dropped by 14 percent, and almost 30 percent of their 9½ million workers are either unemployed or working short-time. According to many studies, this figure is likely to rise further in the coming months.

The pains of unemployment threaten to render the dream of unification a political and economic nightmare. Integrating two such unequal economies—an ossified command system with a prosperous market order—is an unprecedented task. Even under ideal market conditions, it would have taken many months of adjustment to merge the two parts into one homogeneous whole. Unfortunately, the German government compounded the difficulties by imposing its strictures on the adjustment process. It imposed the costs and regulations of one of the most expensive welfare states on the newcomers, thereby paralyzing all but a few highly productive enterprises.

The principal reason for the East German depression is the rapid rise in East German labor costs. *Despite massive regional unemployment, wages are rising with astonishing vigor, driven by the most generous unemployment compensation system in the world. It pays an average worker 68 percent of previous earnings for two years.* Encouraged by vocal labor leaders and thoughtless politicians, workers expecting a shutdown of their decrepit facilities demand immediate raises so they can draw the highest possible benefits when their plants finally close. As labor costs are pushed far beyond labor productivity, jobs disappear at astonishing rates.

East Germans are longing for wage equalization with West Germans. Collective-bargaining contracts call for equal pay by 1994 in a number of industries such as metallurgy, electrical engineering, and retailing. But it is unlikely that one in 10 East German enterprises will stay afloat in competitive markets. With labor productivity at less than one-half of that in West Germany, by 1994 many more East Germans are likely to subsist on unemployment compensation. For the moment, non-dismissal agreements and provisions governing short-time working, financed by large West German subsidies, are holding back the worst.

Privatization Efforts Hindered

Excessive labor costs in eastern Germany may also explain why privatization of state enterprises is proceeding so slowly. In Poland and Czechoslovakia, governments are planning to give away most state-owned enterprises, using vouchers made available to all citizens. In eastern Germany, in contrast, the *Treuhandanstalt* (Trusteeship Authority) is supposed to sell some 8,000 state

Dr. Sennholz heads the Department of Economics at Grove City College in Pennsylvania.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

enterprises at equitable prices. Until now it has rejected most bids for being too low and not meeting its onerous labor conditions. Unfortunately, it makes matters worse: for the protection of eastern workers it seeks to extract expensive employment and wage guarantees from potential buyers, which obviously depresses the price offered for an enterprise, which in turn causes the *Treuhandanstalt* to reject the offer. In the end, few, if any, government enterprises are sold. They are likely to be shut down and their workers discharged when the western subsidies run out.

Few western companies have established or plan to establish plants in the east. East German labor is just too expensive at present rates. The situation is compounded by bureaucratic logjams and disputes over property rights. Even if the Trusteeship Authority were to offer a facility at market prices, which would be a rare exception, it might be enjoined from doing so by litigation initiated by the former owners. Thousands of victims of Communism are pressing claims for compensation or return of their property in the courts of law; the Trusteeship Authority is opposing these claims, clinging to property as if it were its own.

Other factors compound the employment situation, which is leading to growing social tension and political uncertainty. When the two Germanies merged into one and migration barriers were lifted, the two parts formed one comprehensive labor market. According to all principles of economics, West German wage rates should have fallen and East German wages should have risen as eastern labor moved west and western business moved east until, in a few years, both parts would have been equal in labor productivity and income. A small drop in western labor costs would have raised the demand for labor sufficiently to absorb the influx of workers from the east. But instead of reducing western labor costs, powerful unions have managed to boost costs by about 6 percent since unification. This increase alone would have tended to raise unemployment. For the East Germans it closed many doors to employment in the west and forced them to stay at home subsisting on unemployment compensation.

Another factor aggravating the employment situation is the massive influx of Eastern Europeans. With the disintegration of the Communist empire and the dismantling of many migration barriers, millions of Eastern Europeans are seeking a new beginning in western Germany. During 1989 some 700,000 immigrants arrived in West Germany; in 1990 this number exceeded one million, and is likely to rise further during 1991 and the coming years. The movement at first eased the acute shortage of skilled workers in West Germany but now is compounding the employment difficulties of many East Germans.

Roots of Unemployment

Employment and unemployment always are a function of labor costs, not of the costs of equipment. The cause of the German dilemma is not East Germany's poor quality of plant and equipment. Millions of workers throughout the Communist world and in less developed countries around the globe earn a living with similar or even less efficient facilities. But they do not agitate for policies that will price themselves out of employment because they have no one to support them. Inferior equipment keeps labor less productive; it doesn't render it completely unproductive and doesn't force it to be idle. It is foolish to blame old equipment for one's unemployment.

The depression was not caused by the terms of monetary unification, as Karl Otto Pohl, president of the Bundesbank, wants us to believe. In preparation for monetary union he had proposed an exchange rate limit of one D-mark for two rather worthless East-marks. Chancellor Helmut Kohl insisted on a parity of exchange, arguing that the two-to-one rate would penalize eastern savers and pensioners and encourage eastern workers to move westward. In reality, both exchange rates were political rates rather than purchasing-power market prices, which before the union had stood at seven-to-one. Both rates in effect included generous gifts to every East German, especially the savers and pensioners. But monetary gifts by themselves don't directly affect the price of labor, which is determined by the productivity of labor. East German labor could have priced itself out of employment as easily at a two-to-one rate of exchange as it did at the one-to-one rate. The push for wage equalization would have been the same.

Some observers blame the eastern German depression on the disintegration of trade with former Eastern-bloc countries, such as Poland, Czechoslovakia, Hungary, Romania, and Bulgaria. This was the region that previously had bought

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

WASHINGTON POST WRITERS GROUP

seven-tenths of all East German exports. The disintegration of the old trade pattern obviously necessitates painful readjustments, which makes the need for flexibility and adaptability all the greater; unfortunately, the strictures of labor laws and regulations render the necessary adjustments rather difficult.

Many Germans and most people abroad are convinced that Germany will succeed in overcoming its difficulties and, in the end, emerge more prosperous than before. They point to a few rays of hope such as the large and still growing number of new businesses that emerge every day. Since the beginning of 1990, some 400,000 new businesses have been registered. The main focuses of these new enterprises are the craft trades and the service industries. Here the first stirrings of the recovery process are clearly visible.

The new stirrings may contain an answer to the economic dilemma. In years to come they may develop into the mainstream of economic production while the *Treuhand* sector is bound to shrink in direct proportion to the decreasing subsidies it manages to extract from the body politic. In the meantime, however, the deep depression and mass unemployment in eastern Germany are bound to leave their mark not only on the economic well-being of millions of victims but also on their political thoughts and prejudices. Many may argue that, under Communism, they at least had jobs. Under capitalism, or what they now believe to be "capitalism," they feel rejected and forced to subsist on alms from the West. A resentful East German population may even turn against the new order and cast its lot with the foes of democracy and the private-property order. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

China's Entrepreneurs: Keeping the Faith After Tiananmen

by Sheila Melvin

"Judging by China's experience, I advise you not to adopt socialism, at least not vague and unclearly principled socialism."

—DENG XIAOPING speaking to Joaquim Chissano, President of Mozambique, in the spring of 1988.[1]

"The modern capitalist system is a great creation of human civilization."

—XU JIATUN, formerly Beijing's chief representative in Hong Kong, speaking in 1988. Mr. Xu left Hong Kong for the United States nine months after the crushing of the democracy movement and later was expelled from the Communist Party.[2]

"During the 1980s we experienced tremendous success, and during the last two years we have continued to make progress even in the face of foreign pressure and domestic problems, enabling socialist China to stand rock solid in the East. The fundamental reason for this is that we have been following the road of building socialism with Chinese characteristics."

—CHINESE PREMIER LI PENG, addressing the National People's Congress, China's rubber stamp parliament, on March 25, 1991.[3]

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The life of an entrepreneur in the People's Republic of China has never been an easy one. Aside from all the general problems faced by entrepreneurs worldwide and the specific problems faced by entrepreneurs operating within the confines of a Communist country, China's entrepreneurs must somehow cope with the unpredictable political winds that blow out of Beijing and sweep across the nation.

For much of the 1980s, the winds were good. Deng Xiaoping came to power and declared that "to get rich is glorious." He explained his policy of economic pragmatism with the oft-quoted proverb, "It doesn't matter if the cat is black or white, so long as it catches mice."

By the late '80s, inflation was running high. In an attempt to regain control over the economy and to curb inflation, the central government, in October 1988, instituted an austerity plan. The economy slowed, but the position of private entrepreneurs still seemed secure; that same year, China's constitution was amended to legitimize the status of private enterprises. (A "private enterprise" in China is defined as a private, profit-seeking business with at least eight employees.) By early 1989, laws that not only regulated private enterprises, but protected them, were coming into existence.[4]

Then in June 1989, the winds changed direction. How the 23 million men and women engaged in private business in China have fared in the face of these shifting winds can be gauged through the experiences of a sampling of entrepreneurs and non-state sector employees from across the country.

"China's No Good"

Miss Zhang is the proprietor of a coffee house in a small town in Xishuangbanna, an autonomous prefecture in China's southwest Yunnan Province. Like many residents of Xishuangbanna, Miss Zhang is not an ethnic Chinese, but is a member of one of China's 55 officially recognized minority groups, the Dai. She opened her coffee house, which doubles as a disco in the evenings, in 1986. The coffee house is just a few miles from China's jungle border with Burma, and numbers among its customers Thai and Burmese traders who have sneaked into China on horseback. Most of the clientele, however, are tourists from other parts of China.

Miss Zhang is only in her 30s, but she has about her a tired, cynical air that makes her seem older. To Chinese customers, Miss Zhang is curt, but to me she is friendly and open, eager to discuss the trials and tribulations of entrepreneurship in China.

"Is it hard to run a private business like yours in China?" I asked her one scorching afternoon as I sipped iced Nescafé.

"Hard? Hard? It's ridiculous! Taxes, taxes, taxes—all we private business people do is pay taxes. The government doesn't want any private entrepreneurs to earn money. I can't sell alcohol—only the government can do that. The police are always coming to bother me. I have to give them money to keep them away. It's terrible. Terrible."

Private businesses in China are required by law to pay 52 percent of their profit to the state and to put 30 percent back into the business.[5] The remaining 18 percent is often eaten away by local taxes and fees and by the necessity to pay bribes.

Miss Zhang leans forward and lowers her voice conspiratorially, "To tell the truth, China's no good. This government is no good."

"No good," is harsh criticism when directed at a supposedly benevolent government that claims to be a "democratic dictatorship of the people" with only the best interests of the masses at its heart. It is, however, a criticism echoed by entrepreneurs across China.

Demands for more rapid economic liberalization were an integral part of the pro-democracy protests of 1989. These protests came to a bloody end when troops of the People's Liberation Army entered Beijing on June 4 and slaughtered an undetermined number of civilians. But the dissatisfaction, disillusionment, and hope for a better future that fueled the protests did not end.

In the wake of the crushed democracy movement, government hard-liners turned on reformers and blamed the market-oriented reforms implemented in the 1980s as the major cause of the "turmoil." Former Communist Party chief and heir-apparent to Deng Xiaoping, Zhao Ziyang, the main champion of economic liberalization, lost his job and was placed under house arrest.

In the subsequent crackdown, economic re-

Sheila Melvin is a free-lance writer based in Washington, D.C. The names of some of the Chinese entrepreneurs in this article have been changed to protect their identities.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

trenchment replaced economic reform. Both private enterprises (*siying qiye*) and individual businesses (*getihu*) were singled out for attack as the central government tried to regain control over the non-state sector. Too many "flies"—such as the desires for individual liberty, free speech, and economic self-determination—had come in through the "open door." In August 1989, two months after the massacre in Beijing, the State Taxation Bureau began a two-month campaign to detect tax evasion in the non-state sector and issued a circular on "rectifying the tax order" for individual firms.[6]

Most Western experts agree that some "rectification" was in order, since millions of private business owners did actively try to conceal their operations in order to avoid paying taxes. The campaign, however, went beyond mere "rectification" and bordered on open harassment.

Private and individual enterprises were reportedly forced to buy government bonds (as were state workers) in order to help fund the country's budget deficit. Some complained of being made to pay extortionate fees for necessary services. Jiang Zemin, who replaced Zhao Ziyang as General Secretary of the Communist Party, indirectly referred to private entrepreneurs as "exploiters" and said that they should not be allowed to join the Party. He also accused private entrepreneurs of profiteering, cheating, and taking advantage of the people.[7]

I asked Miss Zhang how she had been affected by the post-Tiananmen Square crackdown.

"Business!" she replied. "My business has been affected. The government isn't letting any nonresidents into the border region. If no nonresidents—tourists—come, then I have no business!"

"Why isn't the government letting any nonresidents into the border region?"

"I don't know," she replied bitterly. "They just want to control everything and everybody."

Miss Zhang stared unhappily into space and then changed the subject.

"Is it true that America is full of terrorists and murderers?" she queried out of the blue.

Startled by the question, I told her that America did, indeed, have murderers but that it wasn't "full" of them and that we had very few problems with terrorism.

"Well, then," she continued, "is it true that Americans don't get married and hate children?"

"No, it's not true. Who told you all this?"

"I learned it in school—that's what our books tell us. I always wondered because sometimes Americans come in here and they always seem nice and polite. They don't spit and they don't throw food on the floor."

So saying, she gestured at the floor, which was littered with cigarette butts and peanut shells.

"Your books aren't very good," I suggested. "I think the government wants to criticize America because we are capitalist and they are Communist."

"Yes," she nodded. "Actually capitalism is much better, isn't it?"

"I think so."

"China is no good. I wish I lived in America."

Success Is Dangerous

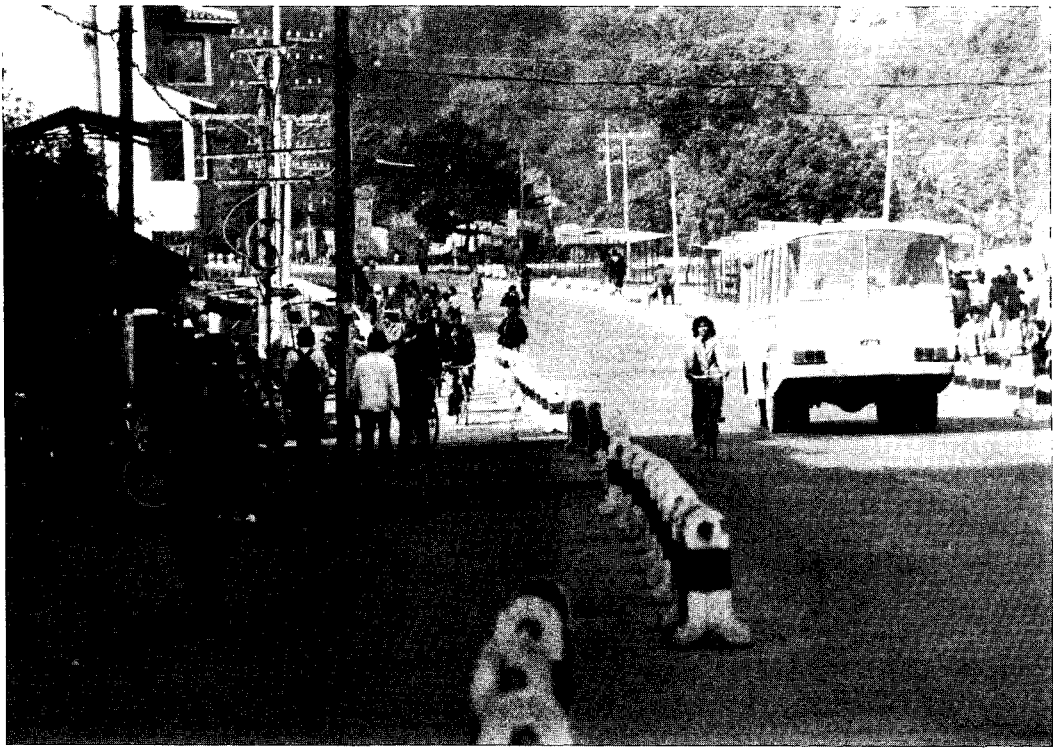
George is a businessman employed by a private enterprise in Wen Zhou, the coastal city chosen for China's most far-reaching experiment in capitalism in 1984. Wen Zhou was selected as the site of the experiment in part because it had no airport or rail head. It was therefore sufficiently isolated both to act as a laboratory and to prevent the spread of too many capitalist ways to the rest of China.

In this novel capitalist experiment, private businesses were encouraged to set up shop. To help them succeed, the first privately owned banks in Communist China were established to lend entrepreneurs money. Business boomed, industrial output skyrocketed, and the people of Wen Zhou grew rich. Any outside observer would have deemed the experiment an unqualified success.

The company George works for produces medical equipment and machinery. George travels around China selling this equipment, although he says his best customers are in Wen Zhou itself, since it is one of the few places in China where people have money.

George isn't a native of Wen Zhou, but he spoke of his adopted city in glowing terms as the most prosperous place in China. According to him, Wen Zhou is richer than Canton or Shenzhen, the special economic zone near Hong Kong, and better, too, because Wen Zhou makes its money from manufacturing rather than trade. Best of all, Wen Zhou's factories, many of which produce electrical appliances, are owned by Chinese families, not just foreign investors.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



COURTESY OF SHEILA MELVIN

Yangshuo's main street.

"If it is so successful," I asked him, "why doesn't your government open up all of China to be like Wen Zhou?"

"Because," he answered, "if all the people in China were allowed to have their own factories and their own money and ideas, they would not be so easy to control, and our government would lose its power. The government does not want to lose its power, and it is much easier to control poor people."

Wen Zhou hasn't fared well since the crushing of the pro-democracy movement. In 1989, the output of the city's 150,000 private businesses fell, and many businesses went bankrupt.[8] The campaign to collect taxes was carried out with a special vengeance in Wen Zhou. The level of tension between the government and the private sector escalated to such a degree that in October 1990 two street peddlers attacked three tax collectors, killing one and beating up the other two.

George, well aware of all this, has decided to leave China temporarily and has accepted a job at a prestigious American university.

"I want to be a millionaire," he explained, "or a billionaire."

"Why?"

"I want to open my own factory and be rich. But first, I must have a green card. If you have a private business and a green card, you are safe—then you are American, and the Chinese government can do nothing to you. But, if you have a private business that succeeds and you are Chinese—then it is dangerous."

Yangshuo

The problems faced by entrepreneurs since the crushing of the pro-democracy movement can be seen in microcosm in Yangshuo.

Yangshuo is a tiny town in the Guangxi Zhuang Autonomous Region in south-central China. It is an hour-and-a-half by bus, and several hours by boat, from the nearest major city, Guilin. Yangshuo is perched on the banks of the Li River amidst an other-worldly setting of spectacular limestone peaks, known as karsts. The scenery of Yangshuo, as well as its bigger neighbor, Guilin, is famous throughout China and has been extolled by artists and poets for centuries.

When tourists started flocking to China in the early 1980s, Guilin quickly became a prime destination. A huge tourist industry burgeoned, much

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

of it private. Tourist boats journeying up the Li River from Guilin stopped briefly in Yangshuo, leading local entrepreneurs to establish a tourist market on the dock.

As the '80s wore on, more and more individual travelers began making their way to China. Yangshuo entrepreneurs couldn't compete with Guilin for the tour-group tourists, but they could try to entice individual travelers to come and stay in their town. Restaurants serving banana pancakes, french fries, muesli, and pizza sprang up. Tailors began selling sun dresses and shorts sewn from the bright, tie-dyed fabrics favored by young Westerners. Musicians came in from the countryside to entertain backpackers as they sipped beer at sidewalk cafes.

By 1988, the year I first visited Yangshuo, the town boasted China's only two privately owned hotels that accepted foreigners, the "Good Companion Holiday Inn" and the "Yangshuo Sheraton." (Neither hotel had any affiliation with the American hotel chains.)

There are only two major streets in Yangshuo, and the hotels were located on the same one, practically next door to each other. Competition between them was fierce. Old women, some with bound feet, were hired by the hotels to catch foreigners as they arrived at the bus station. Hobbling on canes and cackling in broken English, the women, who worked on commission, would try to persuade backpackers to stay at whichever hotel employed them. Both hotels had one rustic toilet per floor and outdoor showers, but they were clean and cheap. The owner of the "Sheraton," where I stayed, rented out bikes, organized outings to nearby villages and midnight tubing expeditions on the Li River, in addition to providing a laundry service and a train and bus ticketing service.

Just up the street from the hotels, the owner of Napoleon's Bar served up Mongolian Hot Pot, with a special tofu version for vegetarians, and chatted with the guests at each table. A young waiter charmed diners with his ability to speak flawless English in a variety of accents and his street-smart knowledge of countries he had never seen. For candlelight, rock music, and after-dinner drinks, travelers could wander over to the "Hard Rock Cafe/Yangshuo," and even buy 100 percent cotton tee shirts bearing the plagiarized Hard Rock Cafe logo with the word "Yangshuo" silk-screened beneath it to prove they had been there.

Travelers found Yangshuo's breathtaking scenery, leisurely pace, Western food, and English menus so convivial after the rigors of traveling in the rest of China that they stayed for days, even weeks. Many, myself included, bypassed Guilin completely, using it only as a staging point to get to Yangshuo.

But, this was all before the June 4 massacre in Beijing two years ago. In September 1990, I returned to Yangshuo to see how its entrepreneurs had managed in the ensuing time period.

"Too Much Dust"

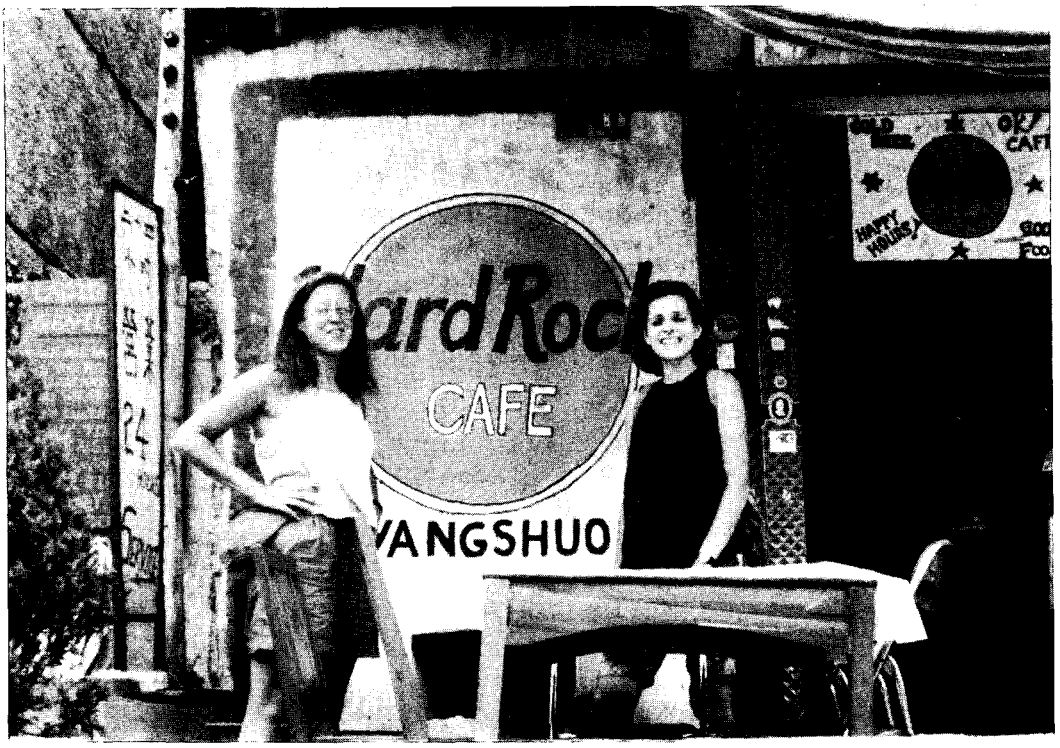
The first blow to hit Yangshuo in June 1989 was the desiccation of the tourist industry that immediately followed the massacre. Suddenly, no tourists were coming to China, and those already there were lining up to get out. (Tourist arrivals in China plunged in 1989, and tourism revenues dropped 20 percent after increasing at an annual rate of nearly 13 percent the previous 10 years.)[9] Entrepreneurs in Yangshuo—and across China—who had sunk everything into a business geared exclusively toward foreign tourists suddenly had no customer base.

The "Hard Rock Cafe" closed from July to September of 1989 because of the dearth of customers. It re-opened in October, but, soon after the re-opening, government officials came and ordered it to close down. The reason? There was "too much dust" on the street, so all private restaurants had to close.

Undeterred, Collin, half-owner of the "Hard Rock," moved his business to Yangshuo's second main road, West Street, and opened again in November. But then, in April 1990, private restaurants quietly re-opened back on Yangshuo's main drag, where Collin's cafe had been, and government officials said nothing. Another entrepreneur opened a second "Hard Rock Cafe" in the building originally occupied by Collin's "Hard Rock Cafe."

Collin takes the arbitrary changeability of his government's policies in stride. Asked if he isn't angry about the competition from a second "Hard Rock Cafe" brought on by the government's closure of his restaurant, he jokes, "Yeah. I should have copyrighted the name." Collin is the son of farmers who raise pigs and ducks and grow rice. He is a college graduate, and his parents think he is "crazy" for running a private business. They

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



COURTESY OF SHEILA MELVIN

Outside Yangshuo's second "Hard Rock Cafe."

think this not only because being an entrepreneur in China is such a risky undertaking, but because, like all college graduates who choose to work in the private sector, Collin must reimburse the government for the cost of his education. Collin's business partner, however, is doing the same thing Collin did, majoring in English at Guangxi's main university while Collin runs the business; it is a measure of the "Hard Rock Cafe's" profitability that both young owners can support themselves, help their families, and pay for college education out of the money the cafe makes. Business, Collin said, was much better in 1990 than in 1989, but not nearly so good as prior to the massacre. Asked what he expects for the future, he replies, "I don't think about it."

Napoleon's Bar closed its doors for many months, both because of the lack of customers and the "dust" problem. The couple who owned it divorced, and the charismatic young waiter was laid off. With no private businesses able to hire him, he was forced to turn to the government for employment and worked for a while as a tour guide. He didn't like working for the government, and eventually found a job at the privately owned Green Lotus Peak Wine House. His one ambition in life is to find a sponsor to help him leave China. "I want freedom," he explained simply. Unlike the "Hard Rock Cafe," Napoleon's was able to reopen at its original location on Yangshuo's main street. However, the restaurant still wasn't back on its feet in the fall of 1990. In an effort to woo customers, it was offering a 30 percent discount for all items on its already cheap menu.

The "Good Companion Holiday Inn" and the "Yangshuo Sheraton" were both shut down by the government in November 1989. The "Holiday Inn" was subsequently re-opened in the "Sheraton's" building, but is now owned by the government. The "Sheraton" is defunct.

Tiger, a former owner of the "Good Companion Holiday Inn," is bitter.

"I was a 40 percent owner," he explained in English. "I lost a lot. Almost everything."

In the difficult year that followed the massacre, Tiger also went to work as a government tour guide, but he didn't like the government travel agency. "They cheat and lie," he explained. When the now government-owned "Good Companion Holiday Inn" opened, Tiger went to work as its manager, quite a comedown from being the hotel's founder and principal owner.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Tiger differs from every other entrepreneur I met in that, rather than supporting the student movement, or at least being sympathetic to its goals, he blames it for the destruction of his business.

"Why were the hotels in Yangshuo closed down?" he asks rhetorically. "Because of corruption. Yangshuo was the only place in all of China where private hotels took foreigners. We were able to take them because of corruption. Many hotels want to take foreigners, but they cannot. The students protested against corruption, and so the government shut us down as an example."

Getting more riled, Tiger continued, "I don't blame the government for what it did in Tiananmen Square. Any government in the world would have done the same thing. The students were trying to overthrow the government, and the government did what it had to do."

Later, in conversation with other entrepreneurs, I learned that Tiger was not a popular figure in Yangshuo.

Glorious Wealth vs. The Socialist Road

Entrepreneurs in China come from all walks of life. Some are college educated, some are barely literate. Men, women, Han Chinese, and minority groups alike choose the capitalist road, with all its associated risks, over the socialist road of state-sponsored security. The crushing of the pro-democracy movement and the crackdown that followed dealt a blow to entrepreneurs and other members of the non-state sector, but not a knockout.

Miss Su is a tailor in southern Yunnan who specializes in sewing the clothes of Yunnan's minority peoples. Her shop is a neat shack across the street from a pigpen. Miss Su is paraplegic and, in China, is therefore considered virtually unemployable.

Miss Su opened her shop in 1985. In a good month, she earns 200 yuan, in a bad month 100. (In 1990, 100 yuan was roughly 20 dollars.) For the 10 months following the June 4 massacre, she didn't have a single customer and was forced to rely on her parents for support. She quietly voiced the hope that "nothing like that would ever happen again," but she has no plans to give up her business.

Miss Ye sells made-for-export clothing out of a tiny stall in Beijing. Her stall is in the thriving silk market located in an alley close to the Friendship Store and the Jianguomenwai embassy compound, an area of the city that is frequented by many foreigners. By Chinese standards, she is quite well-off. Despite her business's prime location, Miss Ye complained that China's economy is terrible.

"After the turmoil, we had no business," she said. "Of course, there are always people from the embassies, but it's people like you we really count on."

"People like me left China, or stopped coming, because we opposed what your government did in Tiananmen Square," I responded.

"I understand that. Of course, I opposed it too. But, when there are no foreign tourists, we private business people can't make any money."

"That's a problem," I agreed.

"This economy—it's really hard for us private business people. Really hard."

"What do you think the main problem is?"

"Socialism! Socialism is the problem! You're either capitalist, or you're socialist, but not both. Our government wants money, but it does not want full capitalism. It's no good."

Miss Ye's words, in a nutshell, sum up the Chinese government's economic policy.

Premier Li Peng has stated that China needs to strike a balance between "building socialism with Chinese characteristics" and continuing with market-oriented reforms. Until he and the rest of the Chinese leaders realize, as Miss Ye already has, that such a balance is ultimately untenable, China's entrepreneurs will remain stuck in the unenviable position of looking toward Beijing to see which way the winds are blowing. □

1. Daniel Southerland, "China Bests Soviets in Real Gains," *The Washington Post*, July 3, 1988.
2. *Ibid.*
3. Lena H. Sun, "China's Premier Urges Tight Controls, Slow Reform," *The Washington Post*, March 25, 1991.
4. Alison E. W. Conner, "Private Sector Shrinking Under Intense Criticism and Increasing Controls," *East Asian Executive Reports: China*, December 15, 1989, page 10.
5. Adi Ignatius, "A Tiny Chinese Venture into Capitalism Feels Icy Chills in Wake of Crackdown," *The Wall Street Journal*, March 8, 1990.
6. Conner, *East Asian Executive Reports.*
7. *Ibid.*
8. Ignatius, *The Wall Street Journal.*
9. Peter Goodspeed, "Slouching Toward Stagnation: Productivity Shudders to a Halt," *The Toronto Star*, as reprinted in *World Press Review*, May 1990.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Freedom Is Not Elected

by Donald G. Smith

There seems to be a lot of confusion about freedom. Many people tie it to democracy or, to be more exact, representative government. The idea is that freedom is safe as long as elected representatives are sitting in some distant assembly hall. Actually the concepts of freedom and representative government are only distantly related, and the presence of one doesn't guarantee the presence of the other.

Freedom flourishes best under representative government. But such a system of government is no guarantor of freedom. It is only a tool to help with the job. We might say that it is better to drive a nail with a hammer than with a rock, but the mere fact of owning a hammer doesn't mean that anyone is going to be driving nails.

Freedom is something that exists alone, and of itself. A big turnout on election day is meaningless if those elected aren't primarily concerned with the rights of the individual. If, indeed, the people who are elected are intent upon passing laws that impinge on personal freedom, then representative government is working against the people.

We would do well to remember that the United States was founded upon the idea of freedom and not necessarily democracy. Those brave souls who tossed the tea into Boston harbor on that December night in 1773 were not motivated by thoughts of a Senate and a House of Representatives and how much power either one would have. They were interested in freedom, and they were quite content to save the details for another time and place. Patrick Henry was in the same frame of mind when he put forth the *liberty-or-death* ultimatum, perhaps the most courageous words ever spoken publicly.

The great motivating principle behind our break with Great Britain was the simple, fundamental matter of personal freedom. This was the issue. Our three branches of government, our electoral process, our two-party system, our local governments, and even our Constitution are nothing more than tools to achieve this end; they are not ends in themselves. They are important only insofar as they protect individual rights, and when they fail to do this they have stopped working.

Our representatives are not in office to carve comfortable niches for themselves or to pander to bloc votes. Nor are they there to decide what is best for a constituency that cannot think for itself. They are there solely to protect individual liberties. It is ironic that they should be the ones from whom we need protection.

A sitting assembly is no guarantee that anyone's rights are being protected, or even considered. The People's Republics that sprang up in Asia and Eastern Europe after World War II are ample proof that large bodies of people calling themselves legislatures have no direct relationship to the freedom of the governed. Even with the built-in safeguards of our Constitution, a legislature that is bent upon raising taxes and passing laws curtailing individual freedom is not performing any service for those who still consider themselves to be separate entities and not part of an artificially defined economic or social class.

Nor is a high court, in itself, any protection for individual liberty. Judges who tend to legislate, rather than adjudicate, in no way are fulfilling their roles as public servants and are certainly upsetting the system of checks and balances that is supposed to keep the machine running. When the courts choose to work against the public interest, they have ceased to function as instruments of justice.

Legislative assemblies, courts, public buildings, and legal documents are only the trappings of freedom; they are equipment. If this equipment puts restrictions upon individual rights, then it becomes nothing more than an obstacle. Without freedom, government is just something to be bypassed or avoided—it is, in effect, the enemy.

Anyone who doubts this should reflect upon that night in 1773 when 342 chests of British tea went over the side. I don't think that the point could be made more clearly. □

Mr. Smith is a writer living in Santa Maria, California. He has been a frequent contributor to The Wall Street Journal.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Thank the Japanese for Our Trade Deficits

by John D. Fargo

Most people believe that U.S. trade deficits are economically unhealthy, and that the Japanese are largely to blame. Yet our trade deficits actually are an unearned blessing for which we should be thankful. Trade deficits bring economic growth and health. When we blame the Japanese for our trade deficits, we are "blaming" them for creating millions of jobs for American workers; we are "blaming" them for increasing our standard of living.

Did you ever wonder why our standard of living is so high? What lies behind the immense difference between our way of life and that of the millions of people living, toiling, and dying in unabated poverty in Bangladesh, Ethiopia, and other Third World countries? Capital investment. To a large extent, investment in housing, hospitals, schools, factories, farms, mines, machines, and transportation systems explains that immense difference.

Capital investment is the fuel of that dynamic engine called capitalism. It is the creator of unprecedented levels of consumption by the masses. And this accumulation of capital and its efficient use, which are inherent aspects of free market economies, are to a great extent responsible for the high standard of living the masses achieve in a free economy as compared with Third World or socialist economies. Even devout statists throughout the world are reluctantly beginning to realize this.

But how is capital accumulated? By savings that are then invested in productive facilities. And how do we rate when it comes to savings and investment in order to maintain our standard of living? About 10 percent of our gross national product (GNP) is invested, most of this just to replace capital equipment that has worn out or become obsolete. Meanwhile the Japanese invest 25 percent of their GNP in capital goods—two and a half times more than we do.

When it comes to net savings—savings above and beyond the mere replacement of capital goods—we fare even worse. Our net savings are 4 percent of disposable income as compared with 20 percent for the Japanese. Part of the problem lies with our own government. Although American households save over 6 percent of their disposable income, the Federal deficit consumes much of what otherwise would be invested in capital goods.

This lack of net savings could pose a real problem for our standard of living that relies upon capital accumulation. Our spendthrift habits and Federal deficits drastically reduce America's ability to accumulate capital. But the Japanese (and others) have come to our rescue. Where we have neglected our own economic health, they have invested in it. In fact, the Japanese are using their hard-earned savings to bail us out of our own economic folly. They are helping us maintain our standard of living by pouring huge quantities of their savings into our economy. To a significant extent, they are fueling the capitalistic engine that maintains our lifestyle.

How do they get their investment over here? Do Japanese households fill shoe boxes full of yen and mail them to us? No, we don't use or spend yen

Mr. Fargo is a railroad worker in Los Angeles and a part-time student at California State University, Los Angeles.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

in this country. In order to invest in our economy, the Japanese first need to earn American dollars.

Picture a shipload of Toyotas coming across the ocean to be sold to American consumers for $100 million. Then picture the Japanese using this $100 million to buy American-made products and taking them back to Japan with them. That makes it an even trade—no trade deficit—but it also leaves the Japanese with no dollars to invest in the United States.

What if that ship unloaded the Toyotas here and then returned to Japan empty? After the Toyotas were sold, the Japanese would have $100 million in American banks that they could then invest in America. That also increases the U.S. trade deficit by $100 million. Net foreign investment flowing into America and our trade deficit are the two sides of the same coin—one necessitates the other.

Let's say the Japanese use this $100 million to build a factory in Kentucky that will employ 1,000 U.S. workers. One thousand new jobs are created for Americans. Not only that, but these workers are using the latest in Japanese technology and Japanese management techniques, both of which often increase the productivity of American labor. $100 million in new capital investment, more advanced technology, more efficient management of capital and labor—all these tend to increase the productivity of U.S. labor and thus tend to raise the real level of wages of America's working people. We should be thanking the Japanese for our trade deficit.

But the Japanese are doing even more. Instead of creating American jobs by buying $100 million in U.S. products to take back to Japan, the Japanese put additional Americans to work by building that $100 million factory here in the United States. Construction is generally more labor intensive than is manufacturing products for export. And, once the factory is built, it will employ 1,000 American workers indefinitely.

In reality, the picture is much more complex than this. For example, the Japanese firm selling the $100 million worth of Toyotas might not invest in America. But other Japanese firms may want to invest, so they trade yen for the 100 million U.S. dollars in order to invest them in America. Thus, the seller and the investor may be two different foreign individuals or corporations.

And the Japanese don't have to build a factory in order to invest in the United States. Instead, they could leave the money in a New York bank account. The bank will readily lend it to Americans to build new homes, or to American firms to build new plants, equipment, and so forth. Or the Japanese might buy U.S. Treasury notes with the $100 million, thus freeing up $100 million in American savings that would have been used to purchase the Treasury notes and now is available for capital investment.

The Japanese might also buy an existing hotel or office building. The purchase itself won't add any new capital investment to our economy. But what does the previous owner do with the money he received from the Japanese? Somewhere along the line buying existing capital investments frees up money for new capital investments. In one way or another, just so long as the Japanese don't buy anything to take back to Japan, just so long as they create or increase the U.S. trade deficit, new capital investment flows into a relatively capital-starved America.

Three-Way Trade

Let's complicate this scenario in another direction to make it more realistic. The Japanese sell us $100 million in goods and in return accumulate $100 million in a bank account in New York. Since American dollars (or bank accounts) often are used as an international currency, the Japanese turn this New York bank account over to Saudi Arabia as payment for petroleum. Then the Saudis spend the $100 million buying American-made military hardware.

In these three transactions, all parties came out even in the end. Each of the three countries involved imported exactly $100 million worth of goods and exported $100 million worth of goods. None of them had a net trade deficit or a net trade surplus. But look a little closer: The above transactions produced a U.S. trade deficit with Japan of $100 million that was offset by a $100 million trade surplus with Saudi Arabia. So we bash Japan for our trade deficit with them while we praise Saudi Arabia for our trade surplus.

Such reactions are irrational. First, as we have seen, a trade deficit means an inflow of capital into an economy and thus should be welcomed rather than cursed—that is, unless we aim at economic self-destruction so we can move a little closer to the Third World. Second, we are denouncing the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Japanese and praising the Saudis simply because of a pattern of trade that in itself has no net significance.

In the real world, trade often doesn't come out even. For example, on net balance Japan exports far more than it imports. That means Japan is creating, or is at least partially responsible for, the net trade deficits of other countries, such as the United States. But this only means that large amounts of Japanese savings are being invested in other economies, such as ours. And after the Japanese have invested their hard-earned wealth into our spendthrift and savings-poor economy, we censure them. And sometimes we do even worse.

For example, let's say the Japanese sell us $100 million in goods, then use those dollars to purchase petroleum from Saudi Arabia, and the Saudis invest that money in the United States. Of course, we should thank the Saudis for investing in America. Instead, we sneer at them. But given our distorted perspective, why do we then continue to bash the Japanese in the above example instead of the Saudis? After all, if the Saudis had purchased $100 million in goods from us, then everyone involved would have come out even—no net trade deficits or surpluses. But the Saudis didn't buy anything with those U.S. dollars and thus left them invested in the American economy. Given our compulsion to bite the hand that feeds us capital investment, shouldn't we then bash Saudi Arabia? Yet, we don't because our books show a trade deficit with Japan but no trade deficit with Saudi Arabia. A more enlightened mind might see Saudi Arabia as the prime cause of the deficit.

Who is to "Blame"?

Instead of laying the entire "blame" on the Japanese, some experts insist this "destructive" trade deficit can be blamed partially on America's lack of competitiveness within world markets. Thus, to some extent it's really our own fault. Let's face it, Japanese cars are a lot better buy for Americans than American cars are for Japanese consumers. Isn't it obvious then that we are less competitive in world markets than the Japanese?

No. The exchange rate between the two currencies has something to do with what appears to be relative "competitiveness." What if the Japanese yen suddenly became four times more expensive in terms of American dollars than it is now? Toyotas would then cost Americans $40,000 to $60,000 apiece—the Japanese car market in this country would quickly dry up. But with that exchange rate, American cars would be selling like hotcakes in Japan, and Japanese consumers would be wondering how Americans can produce cars so cheaply, how Americans can be so competitive in world markets relative to their own auto makers. And Japan would be running huge trade deficits while we would have large trade surpluses.

Yet, nothing has changed in this example except the exchange rate between the two currencies. Thus, we need to ask: What regulates exchange rates? Supply and demand for the respective currencies. Using only the two economies as a model, the Japanese supply of dollars is generated by selling goods to Americans. And the Japanese demand for dollars is generated because they want to buy goods from us and need dollars to do so. In addition, if they want to invest in America rather than their own economy, they also need dollars to do that. The market forces will tend to push the exchange rate between yen and dollars up or down until the demand for dollars is more or less equal to the supply of dollars.

For example, if for every $100 million in goods the Japanese sell to us, the Japanese invest $20 million in America, the exchange rate between the currencies will adjust to make Japanese goods sufficiently cheap (competitive) to Americans and American goods sufficiently expensive (uncompetitive) to the Japanese so that for every $100 million we buy from them, their consumers will buy only $80 million from us, leaving a $20 million trade deficit—which means $20 million of Japanese savings invested in the United States.

Within the real world, of course, all these figures —the amount they buy from us, the amount we buy from them, and the amount they invest in America, in addition to the exchange rate—are fluctuating variables dependent upon various market forces. Also within the real world other factors have an effect on the exchange rate—factors such as tariffs, quotas, transportation costs, governmental influence on exchange rates, and Americans' investing in the Japanese economy as well as their investing in ours. But the principle remains the same. The exchange rates will tend to adjust to make some economies less "competitive" and others more "competitive" in order to balance the supply and demand for various currencies that

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

reflect the supply of and demand for both goods *and investments* that can be purchased with these various currencies.

Thus, the cause of our "uncompetitiveness" as well as the cause of our trade deficit is simply a high demand for dollars by foreigners who want to invest in the United States. We've got to be relatively "uncompetitive" in world markets precisely in order to create a trade deficit that then permits foreign capital to flow in. And as long as the demand to invest in America stays high among foreign investors, the exchange rates between the different currencies will automatically adjust to keep American goods relatively "uncompetitive" within world markets—regardless of how modern our machines and factories become or how high our labor productivity rises.

But this foreign investment also keeps millions of U.S. workers employed building more capital goods for America, rather than employing Americans to produce export goods for foreigners. And it is precisely capital goods invested in the United States that in the long run keep us economically strong and our standard of living high. Capitalism needs fuel.

From another point of view, we can say that America is highly competitive in world markets. We are highly competitive in attracting foreign capital. And capital investment is the real root of long-term economic growth and health. In attracting foreign capital we far surpass Japan—just look at the billions of dollars of their own capital we annually attract to our shores.

The Role of Tariffs

Another explanation offered for our trade deficit or the relative uncompetitiveness of our goods in Japanese markets goes like this: We allow the Japanese a more or less free hand in selling their products to Americans, but they have so many prohibitive tariffs and trade restrictions that Japanese consumers can buy relatively little from us. That's why, we are told, we have a huge trade deficit with Japan.

What if Japan dropped all tariffs and trade barriers? This would certainly help the Japanese consumers and make trade more efficient for both economies. But would it reduce our trade deficit or make us more competitive in the world economy? No. As long as the quantity of dollars demanded by foreigners to invest in America remained the same, the exchange rates of the currencies would simply adjust, driving up the relative value of the American dollar in order to maintain our trade deficit and apparent "uncompetitiveness."

This same analysis can be used to look at the period after World War II when the United States was the great exporter of capital investment. Europe and Japan were devastated by the war, and capital flowed from us to them. This caused large trade surpluses on our part that were offset by the net outflow of capital. And the currency exchange rates had to be such as to facilitate our capital outflow and trade surpluses. Of course, this also made American products appear highly competitive in world markets.

Since foreign demand for U.S. dollars to invest in America is the underlying cause of the trade deficit and our apparent "uncompetitiveness," we might ask: Why do so many foreigners want to invest in America?

First, our huge Federal deficits and our low rate of savings have caused our economy to become relatively starved for capital, thus driving up the real rate of interest (nominal rate minus the inflation rate) or driving up the rate of return to capital in general. To a foreigner, that makes investments in America a good buy relative to the rate of return in other countries.

Second, the United States is a safe haven for investments. For example, even if a high rate of return were promised, would you sink your life's savings into a farm machine factory in Iraq where next year it might be blown up or confiscated by Saddam Hussein's Baath Arab Socialist Party?

This is the same reason why the ruling elites of many Third World countries, whose economies are far more starved for capital than we are, pump their wealth into the capitalistic economies instead of their own. For example, China is desperate for capital, but Chinese Communist officials regularly stash hundreds of millions of dollars in Hong Kong and other capitalist countries. This is tragic because it drives the masses within China even deeper into poverty.

It has become somewhat of a pattern for the ruling elite of socialist or statist economies—whether it be Marcos, Hussein, or the former Communist rulers of Eastern Europe—to accumulate enormous private wealth, often by brutally exploiting their own working classes, and then

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

to invest it in safe havens abroad such as the United States, thus further depriving their own people. Although this inflow of investment into the capitalist countries tends to impoverish the people of the statist/socialist countries, it certainly improves the standard of living of the workers and masses of the capitalist countries—and adds to our trade deficit in the process.

This inflow of capital does have a negative effect upon one segment of the American population, namely the wealthy capitalists. Large inflows of capital investment generate more competition in the capital markets, thus tending to drive down the relative returns to capital—just as other factors, such as our Federal deficit and our relative lack of savings, tend to drive up the returns to capital. But driving down the returns to capital tends to raise the returns to the working classes by means of higher wages. This becomes yet another way in which capital inflow, as reflected in our trade deficits, helps American workers.

Since our trade deficits in the long run are beneficial to the American public as workers and consumers, why do so many people depict them as a great evil? That's a good question, and the answer probably involves more politics, psychology, and history than economics.

The most conspicuous answer may be politics. The essence of government is organized brute force. For example, tax collectors as loyal employees of government don't take too kindly to those who resist governmental confiscation of sizable portions of their incomes. But governments need continually to justify the notion that some people (such as those in government) should initiate brute force (or threat thereof) as a means of relating to other persons (such as those outside of government). In short, government, like any other use of force in relating to other persons, needs legitimacy.

In some areas, such as collecting taxes for national defense, such legitimacy is relatively easily established. But as governments continually expand their regulation of the lives of their citizens, they become ever more desperate for legitimacy. So governments typically search for and magnify social problems—even to the point of artificially creating them—in order to justify the growing expansion of their power over the people and the product of the people's labor.

To some extent, the trade deficit, although inherently good for our economy, has been deemed a "problem" or a "crisis" by big government and its supporters. Thus, they have one more reason to expand the power of government over the otherwise voluntary interactions and social cooperation between persons of this country and other nations.

Piles of Gold

The trade deficit as "evil" also has historical roots. Let's go back in time to the Middle Ages in Europe. Picture a number of mutually antagonistic countries, each ruled by a king. These less-than-enlightened minds "knew" two things for certain.

First, they knew that a loyal citizen never invested his wealth in a foreign country. For example, an Englishman wouldn't invest his wealth in France—that would be worse than throwing it into the ocean. It would be aiding and abetting a real or potential enemy or rival—economic treason! Furthermore, since he was an Englishman, the French authorities might simply confiscate his wealth.

Second, experts of the day believed that the wealth and status of a nation were largely a function of how much gold it possessed. Gold was a common, and prestigious, international medium of exchange.

So picture this pile of gold, the nation's treasure, with the king's throne sitting on top of the pile. The wealth and status of one's nation depended upon how large this stock of gold became. Thus, every time a ship took a load of goods out of the country, sold them, and brought back gold (a trade surplus), the king's pile of gold and the nation's status grew a little. But if that ship brought goods into the country and in exchange took gold out (a trade deficit), the pile of gold shrunk a little.

Of course, a foreign ship might bring a load of oxcarts to England and sell them to the local citizens for gold. Then, instead of taking that gold out of England, let's say they spent it in England in order to build an oxcart factory or develop a coal mine. This would create a trade deficit, but it wouldn't reduce the nation's stock of gold (money supply). But to the degree that people didn't invest in foreign economies, this type of foreign investment wasn't significant.

The wise men of the time concluded that trade surpluses in general were good because they increased the king's stock of gold and elevated him and the nation a little in the eyes of the world, and

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

trade deficits were evil because they reduced the size of the king's pile of gold.

Another factor involved is a little more complex and wasn't well understood at the time. With gold as a common medium of exchange, any net inflow of gold into an economy increased the money supply, causing some degree of price inflation that in the short run tended to generate at least the illusion of prosperity—much as when the Federal Reserve increases the money supply in modern times. Any net outflow of gold would have the opposite effect, reducing the supply of money within the economy, and causing a degree of price deflation and an economic recession in the short run.

I won't go into the mechanics of this phenomenon, but modern economies are not on a gold standard, and thus the local supply of money is totally divorced from any trade deficits or surpluses. For example, if the Japanese sold us $100 million of goods and took back $100 million in gold bullion, it would have no effect on our money supply. In fact, today we wouldn't even call it a trade deficit because gold is now considered just another commodity. And if the Japanese wanted to pack $100 million in American currency into a shipping container and take it back to Japan, we would simply print another $100 million to replace it in order to maintain the same supply of money.

Why do people, even experts, still cling to that bit of ancient economic "wisdom" regarding the detrimental effects of trade deficits even though every premise supporting such a notion has long ago vanished—and just the opposite is true? Gold is rarely used as an international currency, people all over the world routinely invest in foreign economies, and as Adam Smith pointed out over 200 years ago, the wealth of a nation is not a function of its stock of gold. Instead, the wealth of a nation is a function of the skills, habits, and technology of its workers and economic organizers, as well as a function of its factories, farms, mines, machines, retail establishments, transportation systems—in short, a function of the amount of capital investment.

Not only the wealth of a nation, but also the standard of living of its people, is to a large extent a function of capital investment. And a nation can increase its capital investment in two ways: by internal savings or by trade deficits that represent foreign investment flowing in. Thus, it is high time that we stand up, take off our hats, and thank the Japanese and other foreign investors for our trade deficits. □

IDEAS ON LIBERTY

The Benefits of Trade

It is natural for people to trade with one another. No doubt men came to understand the advantages of voluntary transactions long before the dawn of written history. Persuading others to part voluntarily with some good or service, by offering them something in exchange, was usually easier than doing battle for it. Certainly it was far less dangerous. Barring force, fraud or human error, both parties to any transaction expect to gain something they value more than what they are giving in exchange. Otherwise they would not trade. This is equally true of trades among friends or strangers, fellow countrymen or foreigners, small enterprises or larger—whether located next door to one another or separated by many miles or national borders. . . .

It is governments, not consumers, that make national boundaries important. It is governments, not consumers, that create national distinctions and promote economic nationalism, often without intending to do so.

—BETTINA BIEN GREAVES

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

BOOKS

THIS HEMISPHERE OF LIBERTY: A PHILOSOPHY OF THE AMERICAS

by Michael Novak

The AEI Press, 4720-A Boston Way, Lanham, MD 20706
1990 • 153 pages • $18.95 cloth

Reviewed by Jeffrey A. Tucker

History should remember May Day 1991 as the day the Supreme Pontiff of the Catholic Church, the world's oldest religious institution, issued an encyclical to herald the free market as the model for global economic development. Along with it, the Pope praised the role of profit, entrepreneurship, the division of labor, the price system as the means of resource allocation; and he condemned socialism as "impossible" and attacked the bureaucratizing and dehumanizing effects of welfarism.

The appearance of *Centesimus Annus* (The Hundredth Year) was a startling occasion for people who have watched the development of John Paul's social thought. Some reports said that in preparing the document he was consulting with some top Western economists sympathetic to the free market—Jeffrey Sachs and Robert Lucas, for example—but no one expected a document that would please the likes of F. A. Hayek or Ludwig von Mises.

The issuance of the document must have been an especially exciting occasion for Michael Novak, holder of the George Frederick Jewett Chair in Religion and Public Policy at the American Enterprise Institute, and author of numerous works on theology and economics.

Novak has argued for years for the compatibility between Christianity and capitalism, and performed careful textual analysis of papal teaching to reinforce his point. Almost alone, he has kept the Catholic vision of a free economy alive during years when U.S. bishops expressed more skepticism of markets—and the disparities of wealth that always accompany them—than support for their productive capacities.

Novak's recent book, *This Hemisphere of Liberty*, appeared only four months before *Centesimus Annus*. The nine essays herein, nicely compiled and never before published in this country, represent some of Novak's best work. They are not directed toward an audience of academic scribblers, but rather to entire nations.

Most of the essays are taken from lectures delivered during the 1980s as Novak toured extensively in Brazil, Argentina, Chile, Colombia, Peru, Guatemala, El Salvador, Panama, and Mexico, presenting a sweeping vision of the liberty that should be their goal. And they are couched in language that should especially appeal to these audiences. For North Americans, the book serves as a terrific distillation of Novak's most tested thoughts on economics and its relation to religion.

Latin America is a part of the "hemisphere of liberty," Novak argues, a phrase introduced by Colombian historian German Arciniegas. And Novak urges Latin countries to claim that vision by restructuring their political, economic, and cultural institutions to make them more compatible with true human liberation.

In speaking about the right of private initiative and associated liberties, we never find Novak on the defensive against common criticism of markets. He recasts conventional arguments for capitalism in terms imbued with virtue and the common good—decidedly not as a rhetorical trick, but as a coherent and Christian view of the social order.

In this vein, Novak's most impressive chapter is "Structures of Virtue, Structures of Sin." The social order that elevates liberty, he argues, does so not because it ignores the reality of sin, but rather because it is aware of sin's pervasiveness.

"The task for a political philosophy that would seek genuine and effective human liberation . . . is not the task of building a system designed for angels or saints. The task is rather to build a system that will work for sinners." This social order erects checks and balances to government power, insists on an understanding of liberty that is directed toward truth and the good, and channels self-interest into socially useful directions that allow for "universal economic creativity."

Novak invokes Hernando de Soto's remarkable work on the underground economy in Peru to show that economic development in the Third World must come from the bottom up. It is because of concern for the poor that Christ demands of us, he argues, that legal institutions must reflect

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the right to exercise entrepreneurial creativity, and the economy must reward, not punish, this virtue. The weight of state intervention in Latin America is what makes the poor suffer; markets offer a liberation.

It is impossible to overlook the similarity in themes and language between the Pope's encyclical and Novak's work. One can fairly speculate that some of the passages of the encyclical are directly drawn from Novak, if not from this present work, then surely from *Spirit of Democratic Capitalism* or his excellent study *Free Persons and the Common Good*. Especially notable similarities are the emphasis on the human mind as the ultimate economic resource and the market as a means for promoting virtues like creativity, thrift, and honesty in the citizenry.

The Pope's encyclical will turn new eyes toward the work of Michael Novak. Scholars may begin to rethink Novak's work and understand why he has been right about this pope, and why he has the power to persuade the Vatican. When Novak included the Pope in the liberal tradition of Acton, Tocqueville, and Hayek, many conservatives (myself among them) thought he was stretching things a bit. The Pope's pro-market statements seemed few and far between. But it turns out that Novak had a fine intuition about this pope, seeing in him what few others could.

Centesimus Annus is not only cause for celebration, but Novak should enjoy a great deal of personal satisfaction as well. The Pope's encyclical represents a vindication of Novak's work, of which there is no better representative and accessible volume than *This Hemisphere of Liberty*. □

Mr. Tucker is a fellow of the Ludwig von Mises Institute.

TO PROMOTE THE GENERAL WELFARE: MARKET PROCESSES VS. POLITICAL TRANSFERS

by Richard E. Wagner

Pacific Research Institute for Public Policy, 177 Post Street, San Francisco, CA 94108 • 1989 • 239 pages • $29.95 cloth; $12.95 paper

Reviewed by Peter J. Boettke

Economic theory is analogous to a pair of corrective eyeglasses. Whereas the world appears unclear and indistinct without a pair of glasses, the correct prescription lenses will clarify and bring our vision into focus. Similarly, without sound economic theory to guide us, the complex world of economic phenomena appears as a blur. With the aid of sound economic theory, however, the economic world begins to make sense.

To make sense of the modern economic world, we need to understand both the workings of the unhampered market process (and the consequences of intervention) and the nature of the political process. The workings of market processes have received careful attention in the writings of Austrian economists such as Ludwig von Mises, F. A. Hayek, and Israel Kirzner. On the other hand, the nature of political processes has been articulated by "public choice" scholars such as James Buchanan and Gordon Tullock. In *To Promote the General Welfare*, Richard Wagner, chairman of the department of economics at George Mason University (the home of both the Center for the Study of Public Choice and the Center for the Study of Market Processes), combines the insights of both Austrian and public choice economics to analyze the policies of the welfare state.

With the decline of the socialist model of economic organization, the battleground for classical liberals has shifted. The main debate today centers around environmental policy and welfare reform. In fact, the new defense of socialism that appears to be emerging takes one of two tracks or combines them into a new agenda—the necessity of state control to protect against environmental destruction and/or the necessity of expanded state action to protect the least advantaged and provide opportunity to the less privileged.

For example, Robert Heilbroner in his now-famous *New Yorker* article ("After Communism," September 10, 1990) holds out the possibility of socialist action on the environment, and Alan Ryan in his Fall 1990 *Dissent* essay ("Socialism for the Nineties") suggests that expanded social services and the provision of public goods in Western democracies demonstrate the theoretical possibility and practical desirability of socialism. The model for the post-Communist world is not laissez-faire capitalism, but the democratic welfare state, as Francis Fukuyama has argued in his reflections on "the end of history."

To Promote the General Welfare should prove to be one of the most important scholarly works in

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

this debate. Wagner provides: 1) a framework of study that should be emulated in future examinations of the issues, 2) a survey of the existing empirical literature on the failure of the welfare state to deliver on its promises, and 3) systemic suggestions for reform that go to the heart of the problem of majoritarian democracy and its relationship to the productive sector in civil society.

Wagner begins with the recognition that there exists a wide divergence between the justification for state welfare programs and the results of these programs. As he points out, "despite the explosion in spending by the welfare state . . . the number of people whose money income would place them below the poverty line has generally increased since the War on Poverty began." This sad state of affairs isn't limited to the War on Poverty but permeates all "Great Society" programs. How could such policy failures emerge from seemingly well-meaning initiatives?

It is this divergence between rationale and reality that Wagner hopes to explain to the reader. A key factor, he points out, has been the substitution of political rationales for economic ones in organizing social affairs: "The divergence between the justifications for the programs of the welfare state and the actual consequences of those programs —divergences that have by now been documented for a large variety of regulatory programs—are an understandable and predictable outcome of an institutional order that can be characterized as a majoritarian democracy, or an unlimited democracy."

Whereas traditionally governmental failures have been excused as due to a lack of political will or a paucity of sufficient information, Wagner argues that there are *structural* reasons for governmental incompetence. According to prevailing theory, if well-meaning governmental action fails, the remedy is to try harder, gather more information, or appoint better officials. This explanation, however, misunderstands the Achilles heel of governmental action—the nature of the institutional settings and the incentives they provide to individuals.

The problem that faces government officials is one of *knowledge* and *incentives*. "The problem of knowledge," Wagner points out, "is the same in questions of public policy as in questions of business. In both cases, someone must reach a judgment about whether a potential use of resources will be more or less valuable than the alternative use of resources that would have to be sacrificed for the project in question to be undertaken." But while the problem is essentially the same, individuals in private and public sectors "face different incentives to exercise caution in estimating benefits and costs and to act quickly in incorporating and reacting to new information."

To argue his point, Wagner employs a notorious example of business failure: the Edsel. Ford produced the Edsel with the expectation of turning a profit, but when the car turned out to be a failure, profit and loss incentives assured that production was halted quickly.

But the profit and loss pressures faced by businessmen are not faced by government officials: "For instance, what if the Edsel had been a government product, say the outcome of a public policy similar to the federal government's creation of Amtrak? Would production have been halted as quickly? Or would there have been efforts to continue the program, such as requiring government contractors to use Edsels? Any such measure would make the Edsel look more successful, at the expense of an increased burden on taxpayers. Government regulation would have been used to cover up an added tax burden that was used to subsidize the government's Edsel."

The point of the example is to suggest the reciprocal connection between the knowledge and incentive components of public policy. "The incentive to acquire knowledge and the judgment to identify something as knowledge in the first place depend upon the institutional setting within which people act." The lack of incentive and the corresponding inability of government officials to access and utilize the contextual knowledge of the market (knowledge that is embedded within the price system and that provides the basis for economic calculation) produces a situation of *structural ignorance*. Officials who find themselves in such a situation do not simply throw up their hands and say: "I don't know what to do." Rather, they base their decisions on political rationales since economic criteria are weak or nonexistent.

The logic of political processes under majoritarian democracy is to concentrate benefits on the well-organized and well-informed interest groups and disperse costs on the unorganized and ill-informed mass of voters. As a result, the policy failures of the welfare state are not mistakes, but

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

rather the "result of the rational pursuit of interest and not really a failure from the perspective of those whose interests are controlling the choice at hand."

Better public policy, Wagner argues, is not a mere matter of better selection of officials or improved methods of generating information; it requires a political reformation. "So long as government is organized according to majoritarian principles," Wagner concludes, "its participation in economic life will contain important forces tending to erode liberty and property, because successful politicians and special interests can profit from the supply of legislation that has these effects." Only through institutional and constitutional reform in a manner that accentuates the positive activities of government while restricting the negative activities will public policies emerge that are "supportive of the free society that the American constitutional order promises."

To Promote the General Welfare is an outstanding contribution to the literature on the welfare state. Richard Wagner convincingly demonstrates how the current array of welfare programs, and their destructive consequences, are the logical result of the political framework of majoritarian democracy. In addition, the book offers wise counsel for all who seek not only to understand the world, but to change it in a direction that favors individual liberty and economic prosperity. □

Peter J. Boettke is a professor of economics at New York University.

WOUNDED INNOCENTS: THE REAL VICTIMS OF THE WAR AGAINST CHILD ABUSE

by Richard Wexler

Prometheus Books, 59 John Glenn Drive, Amherst, NY 14228-2197 • 1990 • 369 pages • $21.95 cloth

Reviewed by Hannah Lapp

The growing incidence of domestic violence and child abuse in America has provided politicians with an irresistible opportunity for expanding the dominion of government into the most private reaches of its citizens' lives—family relationships. Our modern child welfare system is just another example of the nation's clumsy social welfare programs in that it:

- neglects to deliver the promised services and protections
- hurts the purported beneficiaries
- infringes upon individual liberties
- impedes private solutions
- and, naturally, flaunts the disastrous results of its performance as evidence of the need for more funding and control.

Here we may leave off comparisons to other government bungling and examine the horrors unique to our child welfare system, as portrayed by Richard Wexler, a reporter for the *Times Union* in Albany, New York. His book delivers a bold, up-to-date analysis of child protective performance that strikes the unsuspecting reader particularly hard with its vivid documentation of child-stealing, incompetence, and chaos inconceivable for official ranks.

Throughout his writing, Wexler uses the broad label "child savers" in referring to the psychologists, social workers, politicians, lobbyists, and the like, who comprise the movement for mass intervention in families and state custody of children. The label becomes less flattering with each page that tells of the deeds done under its guise.

In the name of "erring on the side of the child," little Jennifer Humlen and her brother Chris were plunged into a nightmare from which they have never fully recovered. They were abruptly taken into Los Angeles County custody after a school nurse reported Chris's bruised eye to the Department of Children's Services (DCS). The accident had happened when Chris was playing ball. Their distraught mother, aided by neighborhood support and an attorney from the VOCAL (Victims of Child Abuse Laws) organization, got the children back, through sheer will and luck, in one week's time. But one week in DCS custody was long enough to leave Jennifer bruised, feverish, and dehydrated from the crowded conditions in a children's home, and both children suffered deep and lasting emotional trauma. Wouldn't the DCS offer an apology? "Of course not," says the children's mother. "They're in the right, don't you know? They're the child savers."

Parents, says Wexler, have been deemed child abusers for being late to pick up children after school, for not allowing children to watch television after 7:30 P.M., or simply because a child-protective worker botched the arithmetic on a risk-assessment form. "But most of all," he says,

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

"child savers report parents to authorities, substantiate cases against them, and take away their children, solely because the families are poor."

Chicago resident James Norman was a hard-working father with the pride and love for his family that enabled him to support his ailing wife and their four bright children. The bills caught up to him, however, after his wife passed away and he developed a heart condition. In the summer of 1988, the electricity to Norman's apartment was cut off, and a caseworker came to visit. The apartment was messy, she wrote in her report, but the children "appeared to be very healthy." However, Norman was charged with "financial neglect," and the children were placed in foster care. After a year of desperate efforts to live up to child welfare demands, which included a psychiatric evaluation, a job, and a better apartment, he still didn't have his children back. James Norman finally died of a heart attack—at age 38.

These and uncounted similar cases are included in the child-abuse statistics that often are thrown at us as justification for mass intervention in families. Wexler explains how to decipher intelligently such shocking reports as "over two million children are abused each year across the U.S." What this figure actually represents is the number of *reported* cases, which include anonymous calls received at state hot-lines. More complete data shows that upon investigation by a caseworker, 60 percent of these reports are dismissed as "unfounded." Broken into categories, figures for 1986 bear out that over half of the reports involved "deprivation of necessities," which may just mean poverty, 15 percent involved sexual allegations, and 2.6 percent involved serious bodily injury. The National Incidence Studies counts 161,000 cases of serious maltreatment across the country in 1986—only a small fraction of the same year's figure of over two million children reported to be maltreated.

The widely publicized cases of Lisa Steinberg and Eli Creekmore, which involved child torture and murder, are also misused by child savers for proof of the dilemma they face in achieving the balance between what they claim are two objectives at odds with each other—family preservation versus child preservation. Neither of these cases, says Wexler, involved delicate decision-making, since the children were repeatedly violently harmed long before their deaths. What these tragedies actually best demonstrate is the system's incompetence, which is partly attributable to its waste of resources in trivial cases.

If child savers would recognize the intense emotional bearing that family ties have on a child, Wexler contends, they would find that family preservation and child preservation are often not at odds with each other. Whether a child is shuttled between foster homes, torn from his parents upon somebody's "gut feelings," or forced to return to parents after years of attachments elsewhere, his need for a secure relationship is being denied. If the dangers inherent to this denial were taken into account, the child protective system would need to be fixed from almost every angle, and fast. Gone would be the argument that "no child ever died of a social-work evaluation"—a premise that Wexler disproves with accounts where children did indeed die from unwarranted removal.

By focusing largely on the system's injustice to children, Wexler proves that he is *not* in favor of parents' rights versus children's rights. He does, however, address the frequent violation of Constitutional rights when homes are entered, children strip-searched, or parents denied due process during prosecution—largely because of child protective agencies' arrogant attitude that "we're only here to help, so you have no rights."

Veteran Child Protective supervisor Philip Leduc is quoted admitting: "If the level of intrusiveness perpetrated allegedly to protect children were attempted in any other field, we would be in jail, we would have the Supreme Court coming down with innumerable decisions against us."

A good case could be made here for limiting government involvement in the child-abuse problem to its legitimate function of crime control, and cutting out the social programs involved. This would serve to guard against the abuse of Constitutional liberties as well as to protect children more effectively, particularly if violent crime in general were better controlled. Wexler, however, advocates non-coercive government intervention in most child-neglect cases, and dreams of a network of "Homebuilders" who would help out families with money, support, and practical services instead of grabbing their children. While he shows that the cost of these programs would easily be covered by the savings in foster and institutional care of children, he fails to explain how we can insure that paid strangers such as Homebuilders

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

will truly care about the families they deal with. Our government in general has failed to prove itself capable of doing the work of charities, much less the work of preserving families.

In conclusion, Wexler is an expert at uncovering the abuses in our child protective system, although flawed in some of his arguments on causes and cures. The child-abuse issue is one that deserves examination by everyone concerned with preserving individual rights, and *Wounded Innocents* is among the most thorough and readable works on the subject—the kind of book that leaves a lasting impression on its reader. □

Hannah Lapp is a dairy farmer and writer in Cassadaga, New York.

PARLIAMENT OF WHORES: A LONE HUMORIST ATTEMPTS TO EXPLAIN THE ENTIRE U. S. GOVERNMENT
by P. J. O'Rourke

The Atlantic Monthly Press, 19 Union Square West, New York, NY 10003 • 1991 • 255 pages • $19.95 cloth

Reviewed by William H. Peterson

I never lack material for my humor column when Congress is in session. . . . [For] *every time Congress makes a joke, it's a law. And every time they make a law, it's a joke.*

—WILL ROGERS

Meet P. J. O'Rourke, the White House correspondent for *Rolling Stone* magazine and a reincarnated if earthier Will Rogers.

O'Rourke holds that giving money and power to government is like giving whiskey and car keys to teenage boys, that a little government and a little luck are necessary in life but only a fool trusts either of them, that the mystery of government is not how Washington works but how to make it stop, that every government is a parliament of whores, but—and what a *but* this is—that in a democracy such as ours the whores are us.

Or take the author's contention that he is first, last, and always a conservative. How so? Well, he says, conservatism relies on personal responsibility and private liberty. It is an ideology of, by, and for the individual. A conservative, you see, takes his fellows one by one. The modern-day liberal, on the other hand, plays to the crowd. But crowds, says O'Rourke echoing Mackay, Le Bon, and Ortega y Gasset, "are noisy, unreasonable, and impatient. They can trample you easier than a single person can."

Or how about this iconoclast's theory that God is a Republican and Santa Claus is a Democrat? God, explains O'Rourke, is a stern fellow, patriarchal rather than paternal. God holds men strictly accountable for their actions. God is difficult. He is demanding. He is unsentimental, and so it is "very hard to get into God's heavenly country club."

Santa Claus is different. He's cute. Huggable. Always jolly. Ho-ho-ho! Loves children, animals, and the environment. Sure, he may know who's been naughty and who's been nice, but he never does anything about it. He's famously generous to the poor and indeed to everyone else without giving a fig about the cost or any quid pro quo. Generous to a fault. Hence, maintains O'Rourke, keenly aware of the law of no free lunch, Santa Claus is preferable to God in every way but one: "There is no such thing as Santa Claus."

Our White House correspondent has fun with high school civics texts, which are about as close to reality as Santa Claus. He chooses the current Harcourt Brace Jovanovich book, *American Civics*, one of America's most widely used texts. The book includes standard chapter headings such as "Our Federal Court System" and "How a Bill Becomes a Law."

But *American Civics*, short on politics' naked jungle law of seizure, short on Machiavellian manipulation *à la* the Keating Five, i.e., short on what makes the real Washington tick, is a droner, mechanistic, bland, a yawn, despite its pictures in color instead of black and white and despite its insertion of boxed items such as:

"CAN YOU GUESS?

"One of our Presidents had a serious physical handicap. Who was he? *Answer is on page 578.*"

O'Rourke also has fun with the 1991 Federal budget. According to the budget proposal originally submitted to the Congress in February 1990 by President Bush's Budget Director Richard Darman, it contains some 190,000 accounts. Mr. Darman explained that if a concerned Congressman spent but one minute perusing each one of these accounts, at eight hours a day, it would take more than a year to study the budget.

That's bad enough. But by the time the budget

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

emerged from interminable hearings and "Budget Summits" and was billed as the "final budget compromise," it contained a whopper of a tax increase notwithstanding the pledge of President Bush ("read my lips") of no new taxes. Further, it landed on the House floor at 6:58 A.M. on Saturday, October 27, 1990, during what was called "a Congressional sleep-over."

By then the revised and revised budget had grown fatter by more than 1,000 pages of legislation—a pile of paper 10 inches thick, weighing 24 pounds, entailing outlays of $1.23 trillion, and, according to O'Rourke: "Nobody knew what it contained. No one, not one single person in the entire United States had read this document." Nor was anybody able to, there being but a single copy for the entire House, or inclined to, with the Congressional election little more than a week away.

Other targets of the O'Rourke cannon include the National Conventions (with equal fire on Bush and Dukakis), the State Department, Defense, Agriculture, Health and Human Services, Social Security, Environmental Protection Agency, and the Office of National Drug Control Policy (headquarters of the Drug Czar whose War on Drugs, according to the author, is a lost cause). In any event, whores all over the place.

O'Rourke winds up his work on scoundrelism by switching to the story of democracy in the little town where he lives in New Hampshire. There he relates how the townspeople found themselves obligated to spend $6.2 million inasmuch as Congress had passed the Safe Drinking Water Act of 1982 mandating that all water drawn from surface sources must be filtered and chlorinated whether necessary or not.

But he also finds his fellow townspeople playing the same coercive game by attempting to deny a local property owner the right to develop his property into a golf course and condo complex. The townspeople's attempt was, in O'Rourke's opinion, "wanton, cheap, and greedy —a sluttish thing."

Look, says the author, no longer so amused, "We were going to use our suffrage to steal a fellow citizen's property rights. We weren't even going to take the manly risk of holding him up at gunpoint." He then comes up with the blockbuster idea that *government is morally wrong*. He argues that authority has always attracted the lowest elements in the human race, that all through history mankind has been "bullied by scum."

(Here he seems to go beyond thinkers from Aristotle to Mises who held that government, while very much subject to abuse, is still an institution requisite to civilization.)

A perhaps unfunny ending to a funny book, but is it any unfunnier—or funnier—than government in America today? □

Dr. Peterson, Heritage Foundation adjunct scholar, holds the Lundy Chair of Business Philosophy at Campbell University, Buies Creek, North Carolina.

Get Organized!

Attractive blue binders for twelve issues of *The Freeman* will keep your 1991 issues in order. Price: $12.00 postpaid.

Order from: The Foundation for Economic Education
30 South Broadway
Irvington-on-Hudson, New York 10533

VISA and MasterCard orders accepted. Please give us your name, address, card number, expiration date and signature.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Join us in the pursuit of an ideal.

The ideal of freedom is to let anyone do anything he pleases, as long as his behavior is peaceful, with government empowered to keep the peace—and nothing more. An ideal objective, true, but one that must be pursued if we would halt the continuing descent of our society from bad to worse. Nothing short of this will suffice. And unless we fully understand the ideal—and what makes for its attainment—we'll tend to settle for powerless, futile little pushes and shoves that yield no more than a false sense of something done.

—Leonard E. Read

Where have you been? If you've just discovered THE FREEMAN and have found some helpful ideas, you may want to see our studies regularly. If so, just use the form below to reserve your place on our mailing list. (Any individual in the United States is added at his request. For foreign delivery, extra mailing costs require a charge of $15.00 a year.)

Where are you now? If you're already on the mailing list, but have a new address, please let us know of the change to minimize any delays in delivery.

.....

Sorry, this is not a mailing card: please enclose in a stamped envelope.

The Foundation for Economic Education
Irvington-on-Hudson, New York 10533
Telephone: (914) 591-7230

THE FREEMAN
IDEAS ON LIBERTY

☐ Please add my name to receive THE FREEMAN, a monthly study journal of free market, private property, limited government ideas and ideals; and the newsletter, NOTES FROM FEE.

☐ Enclosed is a donation of $_____ to help in The Foundation's work.

☐ Please change my address, as follows.

Name (Please print)

Street

City State

Zip Code

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

"No nation was ever ruined by trade."

—BENJAMIN FRANKLIN
(1706–1790)

THE FOUNDATION FOR
ECONOMIC EDUCATION, INC.
30 South Broadway
Irvington-on-Hudson, NY 10533
ADDRESS CORRECTION REQUESTED

Non-profit organization
U. S. POSTAGE
PAID
Foundation for
Economic Education, Inc.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED